



Benchmarking Mexican Microfinance: Performance and Transparency in a Growing Industry

Produced by:



**Benchmarking
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Performance and Transparency
in a Growing Industry**

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Prodesarrollo

Prodesarrollo Finanzas y Microempresa, A.C. (PD), is a national network of institutions that provide financial services to the public and seek to contribute to the economic development of the country and the fight against poverty through the provision of efficient credit, savings products, consultancy and education for marginalized groups as part of a process of support for sustainable development.

Its mission is “to promote favorable conditions for the development of microfinance in Mexico and contribute to the strengthening of associated institutions, offering quality services to the sector in general, in order to increase fair access to financial opportunities.”

PD was founded in 1997, although its antecedents date to 1992 with **Mesa de Empleo**, supported by the **Ford Foundation**. At present, its members total 61 lending organizations, in both the public and private sector, which have on average 690 branches in the entire country and 1.5 million clients, of which 82% are women. Its organizations share a strong social obligation demonstrated in the values and principles enunciated in the ethical code of the network.

Microfinance Information Exchange, Inc. (MIX)

Microfinance Information Exchange, Inc. (MIX) is the leading provider of business information dedicated to the improvement of the microfinance sector. MIX promotes financial transparency in the industry and continues to help build the information infrastructure of developing countries. These organizations are faced with a key challenge in the microfinance industry: the lack of reliable, comparable and publicly available information on the financial development of microfinance institutions, as well as their social impact. MIX provides detailed financial and social information on microfinance organizations, market facilitators, donating organizations and leading investors in microfinance through MIX Market (www.mixmarket.org) and the MicroBanking Bulletin (www.mixmbb.org).

Today, MIX is directly involved in workgroups that define the standards and best practices for the industry. From its headquarters in Washington, D.C., MIX operates regional branches in Latin America (Lima, Peru), Africa (Dakar, Senegal), and Asia (Delhi, India).

MIX is a non-profit company founded by CGAP (the Consultative Group to Assist the Poor), and sponsored by CGAP, the Citi Foundation, Deutsche Bank Americas Foundation, Omidyar Network, Open Society Institute & the Soros Economic Development Fund, Rockdale Foundation, IFAD (International Fund for Agricultural Development) and others.

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INTRODUCTION

Currently, Mexico has one of the most dynamic microfinance markets in the world, experiencing rapid growth with all types of new entrants. Furthermore, it has been recognized for the successes of its leading institutions, those that have managed to serve a large number of clients thanks to their accelerated growth and the still unsatisfied demand from microentrepreneurs.

Aside from these evident trends, there is much to learn about the Mexican sector, especially since there has been a lack of available public information to date:

- Mexico boasts a large number of highly recognized institutions of varying sizes that serve the majority of the country's regions.
- New market entrants (especially banks and specialized lenders) offer their clients distinct products and services, signalling increased competition in the short and medium term.
- Mexican institutions uphold a strong focus on gender, serving low income clients, and demonstrate very low default rates.
- Many institutions still find themselves fighting to maintain self-sufficiency.

Transparency and the continued monitoring of the performance of institutions are indispensable in order for the sector to experience healthy growth, and currently there is little market information available. This lack of information represents a major challenge for the development of the industry considering that retail and wholesale lending institutions are trying to form strategies for sustainable growth without the consistent, systematic and objective information that would allow them to minimize their risk and make well-founded decisions.

Furthermore, transparency is necessary to attract new sources of funding to the sector, especially sources that require this input to minimize the risks and dangers associated with the lack of information and reference points that allow them to measure performance.

The objective of this report is to support the growth and development of the Mexican microfinance sector by contributing timely, systematic and precise information that will facilitate:

- Creation of a panorama of the current status of the microfinance sector in Mexico.
- Augmentation of the availability of standardized information on the performance of microfinance institutions.

- Promotion of transparency and the monitoring of performance in the sector.
- Establishment of benchmarks to evaluate performance of national institutions, using national and international performance norms and data.

This report on the status of the sector is the first of its kind in that it:

- Uses information representative of 30 Mexican institutions whose detailed self-reported data was standardized and adjusted according to the methodology of MIX.
- Uses information from the most recent MIX benchmarking of national and regional MFIs from the end of 2006.
- Combines the local expertise of the *Prodesarrollo* network with the regional expertise of Microfinance Information Exchange, Inc. to obtain a framework for the performance of the Mexican market.

The report is divided into two chapters: the first chapter provides a context for understanding the microfinance sector in Mexico and the work of institutions focused on microentrepreneurs; it presents some general characterizing statistics, as well as the most recent trends and challenges the sector faces. This chapter also contains a section on the coverage of the institutions, which identifies zones with intense competition, as well as zones where there is an absence of microfinance institutions (MFIs).

The second chapter presents the current status of the performance of the Mexican market, comparing it with the most recent benchmarking information from the Latin-American industry.

CHAPTER 1

Description of the Mexican Microfinance Sector and Microenterprise Focused Lenders

Evolution of the Financial System

The Mexican financial system is a sector that has gone through dramatic structural changes as well as diverse reforms in the last few decades, principally since 1995. That was the year that the country faced one of the most significant crises to date, a crisis that had a large impact on the Mexican banking system¹. Currently, the banking system is in a process of transformation directly derived from the legal reform and institutional evolution of several different periods².

Dominated by financial groups, almost all foreign capital, the Mexican financial system and especially the banking sector has seen three stages worth emphasizing:

1. Nationalization as a result of a crisis in the early 80s.
2. Reprivatization, heavily affected by the financial crisis of late 1994 which ended with a government intervention to prevent the collapse of the system.
3. Banking reform which allowed the recovery of the system (1995–2000) and later its consolidation (2000–2004), although this was not true for its intermediation operations.

As a result of these processes, it is worth understanding some facts that characterize the status of Mexican banks³:

- a. A contraction in portfolio operations, especially in the area of microenterprise

loans, although consumer credit has grown.

- b. Increased concentration in the banking industry, as is evident in the fact that 67% of the market is controlled by 5 of the 40 banks that operate in México⁴. This can be attributed to mergers, internationalization of banks and the formation of financial groups during the banking system's years of recovery.
- c. Bank authorities currently seek to reverse this trend by authorizing new banks in order to generate competition for services and to lower high profit margins and service costs⁵.
- d. Lack of services in lower income sectors, especially rural areas which are perceived to be higher risk markets, more complicated to work in and less attractive than the high profit-margin consumption sector, which has demonstrated strong growth in the past few years, principally through the emission of credit cards⁶.

In spite of this, it is important to highlight the performance of mortgage financing, which, due to the participation of non-bank financial intermediaries (mostly SOFOLs), encouragement by public subsidies, coordination of efforts, and various factors that have incentivized the real estate market, to reach unprecedented levels in recent years⁷.

1 The document, "Competencia Bancaria" Marco Avalos and Fausto Hernández, 2004 p. 23 cites various authors as attributing one of the principal causes of the crisis to the banking system.

2 Link between banks and non-financial businesses (that have ventured into traditional bank endeavors), the development of a rising microfinance market as well as the growing attraction for banks that serve low-income niches (focus on the base of the pyramid or on microfinance).

3 Adapted from the document: "El sector bancario y las Finanzas Populares Mexicanas: Retos, Oportunidades y Amenazas para las Organizaciones de Microfinanzas" Marcelo Villafani-Ibarnegara y Claudio González Vega, 2006 p.26.

4 Article on the expansion of the banking sector: "Día de la marmota" published June, 2007.

5 Mostly in charged commissions, which, as a proportion of the profit margin, oscillate around 50% more than the international standard.

6 Recoverations of consumer credit by multiple banks began after 2000, growing from 1% of GNI in 1997 to 4.2% of GNI in 2006. Source: "Reporte sobre el sistema Financiero 2006", Banco de México, May, 2007.

7 Exception and result of diverse factors (economy and stable financial variables, greater planning horizon, legal and fiscal reform, among others) that incentivizes the development of an important stratum of funding and a great positive impact on the Mexican economy.

All of this would not have been (and would not be) possible without economic and political stability, in the form of a Central Bank that has kept inflation under control and stabilized exchange and interest rates, creating an environment favorable to the development of the financial system.

However, important challenges remain that, under these conditions, must be faced in order to improve the system's efficiency⁸: 1) increasing financial

penetration, which currently reaches 14.1% of GDP⁹; 2) increasing degree of transparency in financial markets; 3) increasing competition in the financial sector on behalf of entities that will increase market penetration and will revive financial intermediation.

Therefore, developing and strengthening the microfinance sector is part of the reply to the challenges that face the traditional financial sector.

The Economic Outlook Remains Positive*

- Economic growth of 4.8% in 2006, the best performance in the last few years, strongly influenced by the rise in the cost of petroleum, continuous growth in remittances from abroad, and an increase in exports, manufacturing, services, and consumption.
- Adequate monetary reserves and an elevated influx of remittances that rose to 23,054 million during 2006.
- Increased expansion of private investment seen over the past six years.
- Controlled inflation of 4.05%, in 2006, though higher than the previous year.
- Exchange rate of 10.89 pesos per dollar
- Reference level interest rates at their lowest point: the TIIE 28 days and the CETES 28 days, were 7.02% and 7.37% respectively at the end of the year.
- Risk Classification—country among the best regional ratings, just below Chile.

*Source: CNBV, *Informe de Evolución Bancaria 2006*.

8 Additionally, some other elements like regulatory efficiency, efficacy of prudential supervision (coordination of supervising commissions) among others.

9 Not unexpected, considering a certain amount of risk aversion, that dominated banks after the 1994 crisis and how lucrative commissions can be and value transactions that are a high percentage of MFI revenues. Source: "Reporte sobre el sistema Financiero 2006", Banco de México, May, 2007.

Description of the Microfinance Sector

Characteristics

Popular savings and credit institutions have proved to be an important tool for the country's development, both for economic growth and for poverty reduction.

In Mexico, an estimated 42.6%¹⁰ of people live in poverty and only 18%¹¹ have one or more savings accounts in a bank.

In order to serve this sector of the population, multiple institutions exist under diverse legal

regimes with various methodologies, histories, sizes and services. These constitute a supply of financial services that compete with as well as complement each other in terms of the niche or population that each serves.

Due to this variety, it is difficult to estimate the total supply, number of clients, and number of institutions. However, it is possible to say that in total, the sector serves approximately 5 million people through about 600 institutions with about 2500 branches spread throughout the entire country¹².

The institutions that serve this sector fall under the following legal classifications:

Legal Classification	For Profit?	Is it regulated? Can it take savings deposits?	Characteristics
Asociaciones civiles (AC)	NO	NO	Legal, not-for-profit, social mission.
Sociedades civiles (SC)	YES	NO	Social mission, linked to economic development, promotes initiatives in the area of social economy.
Instituciones de asistencia privada (IAP)	NO	NO	Not-for-profit institutions with the objective of carrying out work related to social assistance.
Instituciones de banca múltiple	YES	YES	Integrated financial services offered to the general public (savings and credit, among others)
Sociedades anónimas (SA de CV)	YES	NO	Societies whose shareholders join by participating in social capital through titles or shares. Shares can be differentiated between themselves by their different nominal values or the different privileges that are linked to them.
Cajas de ahorro y cajas solidarias	NO	Unless exempted, these are in the process of becoming regulated by the LACP (Law for Micro-credit and Savings)	Solidarity-based savings banks were conceived as mutual assistance organizations formed by individuals that share common natural ties and who band together in order to save. Each member contributes social capital. The society organized through these banks has maintained its administrative bodies and has contributed to its own growth. They operate through their members.
Sociedades financieras populares (SFP)	YES	YES (As per the LACP)	Financial services focused on the general public, especially deposits and savings, offers of credit and retail operations.

10 In accordance with the *Consejo Nacional de Evaluación de la política de Desarrollo social* (CONEVAL): <http://www.coneval.gob.mx/coneval/Programas.html>

11 See Mitofsky "La cultura del ahorro y la deuda en México", July, 2004.

12 Estimation calculated by *Prodesarrollo* based on reported data from Comacrep, data compiled by *Prodesarrollo* (both organizations taken together are representative of the sector that contains the majority of institutions) and on information obtained from the largest institutions not represented by *Prodesarrollo* and Comacrep: *Fondo 5 de mayo, Finsol, Admic, Pronegocio y Caja Libertad*. Furthermore, the equivalent figure was estimated for microenterprise lenders not accounted for otherwise.

Legal Classification	For Profit?	Is it regulated? Can it take savings deposits?	Characteristics
Sociedades cooperativas de ahorro y préstamo	NO	YES (As per the LACP)	Financial services, especially deposits and savings, as well as credit to members.
Sociedades de ahorro y préstamo (SAP)	NO	SAPs were regulated entities, and are now in the process of becoming regulated by the LACP	The object is to take deposits of resources exclusively belonging to its members, through savings, for which the group is obliged to cover the principal, and in some cases the financial accessories of deposited resources. These resources are invested only in the same members or on investments that benefit all. They are in the process of becoming regulated as per the LACP.
Sociedades financieras de objeto múltiple (SOFOM) y Sociedades financieras de objeto limitado (SOFOL)	SI	SOFOM: Some are regulated and some are not SOFOL: YES (In the process of transforming to SOFOMs)	SOFOMs are corporations whose statutes expressly state that their social objective is to undertake one or more activities related to offering credit, as well as leasing and factoring without having to request authorization from the federal government in order to do so. Regulated SOFOMs ¹³ : Are those that maintain links to credit institutions or those that control financial groups, of which credit institutions are a part. Non-regulated SOFOMs ¹⁴ : In these companies, the terms and conditions of regulated SOFOMs do not apply. SOFOLs: This is a non-bank financial institution that is authorized to finance a specific sector or activity. A mortgage SOFOL, for example, specializes in home loans. A SOFOL is supervised by the <i>Secretaría de Hacienda</i> (Secretary of the Treasury), the <i>Comisión Nacional Bancaria y de Valores</i> (the National Commission on Banks and Values) and <i>Banco de México</i> (Bank of Mexico). A SOFOL does not receive deposits from the general public; its funding comes from its own capital, commercial banks, earnings from the stock-market, and the development bank. Currently they are in the process of deregulation and extinction.

This chapter does not analyze the multiple funds, trusts, financiers and public banks, pawn brokers, SOFOLs, mortgage lenders, credit unions, development banks, or providers of consumer credit.

However, it is possible to characterize two distinct groups that serve the sector according to their history, methodology and the goal under which they were formed.

The older *cajas de ahorro* (non-bank financial intermediaries) were formed in the 1960s, and provide financial services to the public¹⁵. Since one of their principal activities includes taking deposits, many of these are being regulated through the *Ley*

de Ahorro y Crédito Popular (Law of Savings and Microcredit).

On the other hand, microfinance institutions that *focus on the microentrepreneur* originally sprung up through the non governmental organizations that emerged in Mexico starting in the 1980s as a reflection of similar institutions elsewhere in the world (*Grameen Bank* in Bangladesh is an example). These came about as a tool in the fight against poverty as a response to the lack of formal financial services available to the poor. They initially emphasized microcredit, with innovative methodologies developed and confirmed to treat the needs of microenterprises and designed specifically to serve poor clients.

13. Taken from www.economia.gob.mx.

14 Idem.

15 In the 90s, Cajas Solidarias were included in the same sector as cajas de ahorro and some of the existing cajas adopted the acronym SAP.

The conditions under which these loans are offered adapt to the income flow of the client, which results in shorter terms and lower amounts than those usually offered. In addition, funds from loans go to the clients' small businesses, which also serve as the source of funds from which they repay these same loans. In general, since the population being served lacks traditional guarantees, they are replaced by social guarantees (a social sponsor or group liability), or, in cases of individual lending, by an analysis of repayment capacity, the client's character, and additional requirements or guarantees (some of which may not have a market value but still serve as repayment incentives).

While microenterprise loans continue to be the most important product they offer, their vision is more comprehensive. They are developing and offering diverse products focused on and appropriate for the needs of micro entrepreneurs.

Historically, these institutions have had a high rate of expansion, but until the late 1990s their growth rate—fueled by government financing programs and by the appearance of sources of funds for this sector—was particularly high. Their growth rate was higher than that of the savings and loan sector in its entirety, and served both the urban and rural poor. For example, *Prodesarrollo's* (micro entrepreneur-focused) organizations had a portfolio growth rate of 50% in 2003–2004, while the expansion rate of the rest of the sector, according to COMACREP, was on average 20% per year with a wider client base.¹⁶

Description of MFIs Specializing in Microenterprise Products¹⁷

On average these organizations are 8 years old and help 1.5 million clients in total, 90% of which are women. The institutions state that 70% of their clients live in rural areas and the total active credit portfolio is valued at 4,240 million Mexican pesos (MN).

Outreach

Of all the clients that the sector serves (5 million), microfinance institutions focused on microenterprise serve 1.5 million¹⁸, approximately 30%¹⁹.

It was observed that while the SACP served on average 6000 users per entity, the members of *Prodesarrollo* (institutions focused on microenterprise) served on average more than 40,000 users per organization or 15,000 if you disregard the extreme cases, that is, between three and nine times more per institution. We observe that the micro-finance organizations help on average a greater number of clients and grow more rapidly²⁰.

Average credit and average savings²¹

We calculate that the average balance in SACP savings accounts is 7,500 MN. The average savings account and credit balance represents about a fourth of the average value of balances of accounts in the banking sector. We are not mentioning the average savings of the microenterprise lenders because as

16 Calculated from the database of the organizations associated with PD and information obtained from the COMACREP portal.

17 The information used in this chapter to characterize institutions focused on microenterprise was obtained by *Prodesarrollo: Finanzas y Microempresa* (Finances and Microenterprise); the information was collected from 31 institutions of this type. The values do not coincide with those presented in chapter 2 since in this case averages are used and in the next chapter medians are included (the values of the medians for the whole sector are not known). Besides this, the data from *Financiera Independencia*, *Caja Libertad* and *Caja Popular Mexicana* have not been included here, these have been included in chapter 2 and data from five institutions focused on microenterprise were included that are not reported in the second chapter.

18 To estimate this value clients reported by consumer credit providers were left out.

19 Estimation made for *Prodesarrollo* based on reports by their institutions and the information obtained from the largest non-affiliated institutions: *Fondo 5 de Mayo*, *Finsol*, *ADMIC* and *Pronegocio*. Moreover the equivalent value of the institutions focused on microenterprise that were not counted was estimated.

20 Extracted and adapted from "Lineamientos principales", Pilar Campos, August, 2006.

21 Exchange rate: 10.881 pesos/dollar on December 31, 2006. Source: World Bank.

described above very few of the organizations provide savings services.

The average loan in the entire SACP is 16,000 MN²², and in institutions focused on microenterprise the average credit is 7,256 MN²³. That is to say, the microenterprise lender averages is a third of the average loan size of the SACP²⁴. Another difference is the methodologies used. We have mentioned the characteristics of the methodologies of the institutions focused on microenterprise while those of the SACP, in the majority of cases, are based on traditional analyses and on the savings balance which the member has with the institution, allowing them to grant larger loans.

Who are the clients?

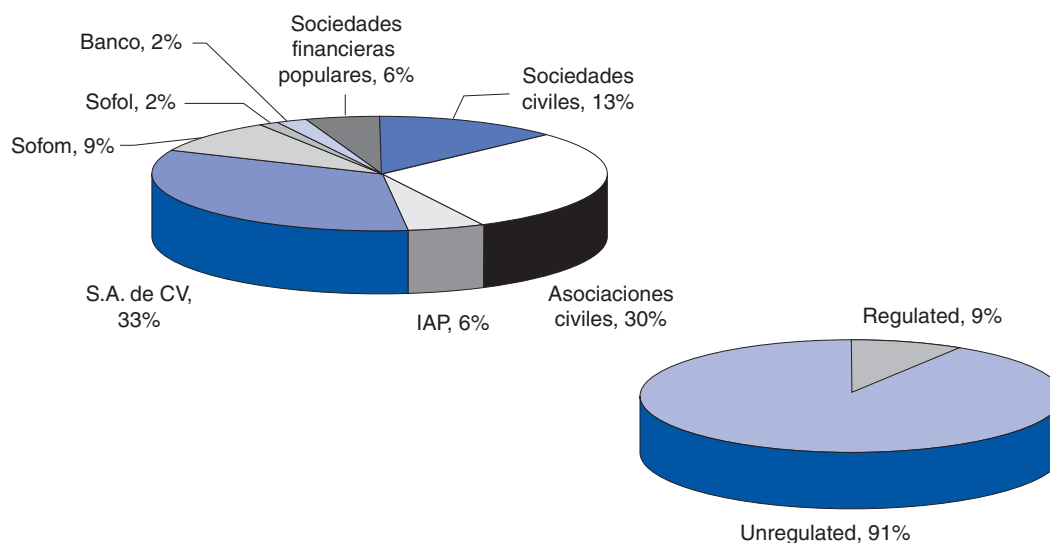
Analyzing the SACP as a whole, in the lowest quartile of income of users we encounter families who live, on average, on 2,200 MN per month (this level of income

is recognized as poverty by the SEDESOL); many of these families are in the rural sector and in highly marginalized areas²⁵. This population represents 25% of the homes served by the SACP as a whole, and the majority of the homes served by institutions focused on microenterprise.

An important percentage of the clients of the SACP are found in the informal sector of the economy; 52% of users' have family businesses and of these businesses more than half are not registered²⁶. In the same manner, of the members or clients who are employed, a third of them are not enrolled in the IMSS²⁷. These companies and people are not eligible for a traditional bank loan, for they do not have anything to verify their income, among other restrictions²⁸.

The average value of the loans is an indicator that is continually used as a proxy to determine the level of poverty with which these institutions work. As previously mentioned

Distribution of Mexican Institutions According to their Legal Classification:



22 Ibid.

23 Information obtained by *Prodesarrollo: Finanzas y Microempresa* from the financial ratios of 32 institutions compiled in 2006.

24 The mechanisms were designed so that the source of repayment and the destination of the loan is the microenterprise, but money is fungible and in some cases the use of credit can correspond to the specific needs of the borrower.

25 Presentation of the Savings Survey, *Crédito Popular y Microfinanzas Rurales*, 2004.

26 Ibid.

27 Ibid.

28 Extracted and adapted from "Lineamientos principales," Pilar Campos, August 2006.

the average loan of the institutions focused on microenterprise is much lower than that of the SACP as a whole, that is, 7,256 MN (a median of 5711). That is to say, this average represents a third of the average loan of the SACP. Therefore if we take this indicator as an estimator of the level of poverty we can deduce that the average client served by the group of microenterprise lenders is poorer than the average user of the SACP, although specific studies are required in order to define for certain the level of poverty that they serve²⁹.

The number of personnel they employ has risen to approximately 9,300 people and is on average 421 people per institution. If you do not take into account the outliers, the average is 108 people per institution

About 65%³⁰ of the institutions have a high level of consolidation, that is to say that they are neither new nor very small (small is defined as less than 5,000,000 MN in their portfolio); they are self-sufficient financially. However if we include the large influence of newly created institutions, we estimate that this percentage decreases to 46% or less.

The growth of the institutions has been very strong in recent years, showing an average annual growth in the number of active clients of around 45% during the period between 2002–2005.

The institutions offer a variety of services, financial and non-financial. The average institution offers between two and three different financial products.

Of these credit products, the most common is the microenterprise loan, for which they employ a variety of methodologies to reach the objective population. The same institution will normally use between two and three different methodologies or credit products:

100% give microenterprise loans:

- About 75% grant microenterprise loans using the jointly liability, or solidarity group, lending mechanism: these are loans that increase upon each renewal, with a jointly liable guarantee, periods of 4–6 months although there are institutions whose periods go from 2 months to a year, groups of 4–6 people and weekly or biweekly payments.
- **22%** grant credit using the village banking mechanism: slowly increasing loan amounts, group liability, periods of 4 months that can be extended to 6 months, and in this case the groups are formed from 15–30 people, and can even be up to 50 people. Payments are fundamentally weekly, though they can be biweekly.
- **56%** grant individual microenterprise loans: there isn't a jointly liable guarantee but, depending on the amount, they ask for extra requirements such as references or collateral, real or liquid. The period is from 4–6 months (although they can have periods of up to 1 or 1.5 years), and the payment is fundamentally biweekly, although they can also be made weekly or monthly.

Besides these, some institutions are innovating with other types of credit:

- 13% give loans for housing or home improvement with periods go from 8 months to 2 years, and whose payments are made monthly and require real collateral.
- 3% give loans to buy cars.
- 3% of the institutions give consumer credit.

Savings deposit-taking is infrequent but it is estimated that it will grow as regulation

29 Information obtained by *Prodesarrollo*: Finanzas y Microempresa (Finances and Microenterprise) from the financial data of 30 institutions. Exchange rate: 10.881 pesos/dollar on December 31, 2006. Source: World Bank.

30 Estimation made based on the report of financial ratios from a sample of 28 institutions. This value differs slightly from the one presented in chapter 2 because the data from consumer credit banks, and cooperatives has been included.

of the institutions advances. There exists in the sector full recognition of the importance of savings services, and subsequently many of the various institutions are in the process of regulation in order to capture public resources:

- 6% take savings deposits and offer a variety of savings products for their clients.

Other financial services that they offer are:

- **Life insurance** for payment of debts: 16% of the institutions
- **Optional life insurance:** 6%
- **Car insurance:** 3%
- **Remittances:** 3%

Another important characteristic of the institutions is that a significant number of them offer non-financial services or accompanying services with the principal objective of improving the quality of life of their clients:

A full **37.5%** of institutions offered one or more non-financial service:

- Business training or training on how to use and invest credit: 19%
- Health (services or training related to): 16%
- Training on human capital development and female empowerment: 9%

- Literacy training or promotion of formal education: 6%.

Principal Trends and New Entrants

The microfinance sector in Mexico has undergone drastic change and evolved significantly in the years 2000–2006.

The following is a list of the major changes and trends that can be seen in the sector:

- A continued improvement in the sustainability of MFIs.
- A greater presence by for-profit entities relative to nonprofits.
- Greater market penetration, especially in urban areas, where increased competition is evident.
- Increased institutionalization and professionalism, and a federal public sector that is ever more aware of the challenges of the microfinance sector.
- An increase in the number and variety of private institutions participating in the market.

Strong growth in consumer credit, through the entrance of new banks and financial institutions in the specialized “base of the pyramid” market that serve (and will serve) both salaried clients and micro entrepreneurs, especially in urban and semi urban areas.

New Market Entrants

If consumer credit has seen an “Aztec Effect” in regards to the proliferation of institutions that provide this type of credit, then traditional microfinance in Mexico has also undergone a strong “Multiplier Effect” generated by the profitability that several institutions have demonstrated.

Many players have entered the market in the past two years, and this has changed the scene so quickly that any snapshot of the status of the market is obsolete in a matter of months. However, several examples can be highlighted from 2006 and the beginning of 2007 that demonstrate the mix of new entrants:

Traditional banks have entered the sector:

- * The Spanish bank, BBVA, has formed a regional investment fund in micro-finance companies and made some purchases of microfinance providers in Peru and Colombia and has shown a particular interest in investment in Mexico. Bancomer, its local affiliate, with more than a fourth of the total assets in the banking sector of Mexico³¹, has initiated direct microcredit operations in Mexico City.
- * Banorte, the biggest Mexican bank in terms of capital continues to expand Créditos Pronegocio (Probusiness Credit) operations, member of the same financial group, and focused on serving microenterprises.
- * HSBC purchased 20% of SOFOL Financiera Independencia stock.
- * Ex officials of Bank of America, along with national investors, invested in CrediConfia in the state of Mexico.

Certain well-known microfinance providers from other countries also entered:

- * MiBanco del Peru, a successful affiliate of the Acción (Action) network in Peru, has purchased stock in the microfinance institution Forjadores de Negocios (Forgers of Business) and has made several other investments in Mexico.
- * Planet Finance formed MicroCred in Veracruz, its first ground level operation, in a series of foreseen openings.
- * Prodem, one of the pioneers of microfinance in Bolivia, sold stock from their FFP (supervising finance company) in Bolivia to a state-run bank from Venezuela and has shown interest in investing in the opening of a microfinance institution in Bajío.
- * ProCredit Group, which has a successful network of Microfinance Banks in Central and South America and in Europe, using individual credit methodologies, is in the process of initiating operations in Mexico.
- * Along with this, there is an observed interest between national companies that are not lenders and private investors in forming their own institution, like what has happened in the case of Farmacias del Ahorro, one of the major pharmaceutical chains in Mexico, and its entrance into microfinance with the launch of “Te Creemos” (We Believe You).

The “Aztec Effect”

The 2003 launch of Banco Azteca (Aztec Bank), by Electra Group, took advantage of the infrastructure of the group to obtain a national network of service providers and achieve a high level of profitability while focusing on the mass market. In three years Azteca has opened more than six million savings accounts, with an average loan balance of \$5000 MN, demonstrating the size of the demand for savings accounts in the mass market in Mexico*.

Although the credit portfolio of Banco Azteca is mainly credit to employed people using consumer credit methodologies, there exists an overlap with the niche served by the microfinance sector. These higher levels of profit demonstrate the opportunities that exist when organizations provide the popular market with financial services on a massive scale.

Currently we can observe various new banks that have entered the popular sector with methodologies of consumer credit.

* Wal-Mart, the largest retail business in the world, and a considerable presence in Mexico, has for years intended to open a bank in the United States. In December of 2006 they managed to open *Banco Wal-Mart de México Adelante* (Wal-Mart Bank for Progress in Mexico). Obviously, it is not a traditional financial actor, much less a traditional microfinance provider but, the popular sector is its natural market, many smaller businesses (formal and informal) make their purchases at Wal-Mart, and this is one of the most natural niches it could serve.

* Other large wholesale stores that obtained their banking licenses at the end of 2006 include BanCoppel of the Coppel Group (direct competitor with Electra), and Banco Facil of the Chedraui Group (self-service).

Although these actors are focused on promoting consumption, it is estimated that there will exist an overlap with the markets served by many Mexican microfinance providers with a methodology of microenterprise credit. The resulting effect of this massive incursion cannot be estimated at present.

* *Source: Presentation of Carlos Septien, Banco Azteca, “Sirviendo la Base de la Pirámide” (Serving the Base of the Pyramid), November 10, 2006. Presented in a meeting of Project AFIRMA.*

The Cost of Microfinance

By: Dr. Horacio Esquivel Martínez

History

In Mexico, during a period of stabilizing development, the development banking system was created (1940–1970). During the six years between 2000–2006, BANSEFI was created to substitute for the *Patronato del Ahorro Nacional*, (PANHAL) to regulate the activity of savings institutions and MFIs. Two figures predominated, *sociedades financieras populares* (non-bank financial institutions) (for-profits) and *sociedades financieras de ahorro* (non-bank financial intermediaries) (non-profits).

The development bank works in two modalities:

- a) the direct granting of credit (retail lending);
- b) the granting of resources through intermediate financial providers (wholesale lending).

These banks functioned through a mechanism called a forward offer, consisting in increasing the credit offer with the end of lowering the interest rate (Marguerite Robinson, the Microfinance Revolution). This led to a demand induced by a subsidized interest rate. The subsidies for the interest rates contributed indirectly to the aggravation of the fiscal deficit. Costs were not recovered and in addition there was not an efficient recuperation of loans.

Situations that Banks Regularly Face in their Activities

Basically there are three situations banks confront regularly due to asymmetric information:

1. Moral Hazard. Due to the impossibility of detecting the intentions of a borrower to pay and the inexistence of a good incentive system, vr. gr., the regulatory framework indentifies moral hazard, which is the possibility that the borrower will not cover his financial obligations.
2. Adverse selection. Moral hazard motivates the bank to increase the interest rate, forcing the safest projects which offer a smaller profit margin out of the credit market.
Only those projects which on paper offer greater profit and the capacity to meet their financial obligations remain in the market. Said projects are generally riskier, because the probability of failure rises as does the probability that the bank will not recuperate its loans.
3. Rationing of credit. When the bank raises the interest rate with the intention of recuperating its resources from the clients that do pay, it paradoxically induces a real decrease in the credit offer, which is known as credit rationing.

Response to the Mechanism of the Advance Offer and Asymmetric Information

Microcredit arose in response to the described advance offer mechanism; microcredit loans are small loans granted to people in a state of poverty. These loans were formally created in 1973 by Muhamad Yunus in Bangladesh. In order to be granted, methodologies had to be designed that would permit them to lower the cost of the loans cause by the problems associated with asymmetric information (Esquivel, 2006). The methodology created by Yunus³² was named group liability, which replaces the traditional credit check

32 As commented in the previous part other methodologies have also developed (communal Banks, and individual loans) that have achieved good results offset the lack of real guarantees with reasonable costs.

performed by commercial banks and consists of forming groups between 5–10 people in which each person depends on the other. If any member of the group fails to pay then the rest are obligated to cover his debt: “All for one,” as Claudio González Vega said.

infrastructure both to grant and to recover the loan.

The following table explains how microfinance providers face higher costs than banks and as a consequence have higher interest rates.

		MFI	Bank
Loan Amount		\$3,000	\$150,000
Administrative Cost		\$1,800	\$ 1,800
Opportunity Cost of Money	3%	\$ 90	\$ 4,500
Default cost	3%	\$ 90	\$ 4,500
Total		1980/3000*100	10800/150,000*100
Interest Rate		66%	7.2%

Costs Incurred by Banks (CGAP)

There are three types of principal costs associated with the credit service:

1. Opportunity cost of money (interest rate).
2. Cost of default (percentage of people who do not repay their loans).

Both are proportional to the amount of the loan. However, there is a third type of cost:

3. Administration cost (transaction cost).

This type of cost has been an obstacle to entering the microfinance market for traditional banks because the transaction costs are not proportional to the loan amount. For this cost, there is not a large difference between giving a loan of a hundred, five hundred or ten thousand dollars. All of the loans require the same number of credit analysts, a high quality credit evaluation, as well as the same number of man hours and

As shown in Table 1, we have two loans given by a MFI and a bank respectively. The administration costs are 1800³³, because both have to pay some fixed cost which is not proportional to the amount of the investment. We assume that the deposit-taking cost and default cost are equal in both cases.

As stated above, for a small loan the costs are proportionally higher, even when the absolute quantity is the same.

The result is that the MFI must charge a higher rate than the bank because of its structure, the characteristics of the market it serves and the loan amounts it offers, and in this form it can generate economies of scale more rapidly. To do so, the MFI has to reach more clients, increase its loan portfolio and lower said transaction costs.

It is clear why the interest rates for small loans are high and why banks stayed out of these markets: they did not have a reliable methodology that would permit them to lower transaction costs, costs which end

33 Corresponds to the annual administration cost of the microfinance institutions in Mexico, Source: MIX-Prodesarrollo.

up being more than the total amount of a microloan.

The Challenges for Microfinance Institutions

Despite the advances achieved in thirty years of microfinance, the challenges are still very large. Without putting aside the goal of reducing poverty by half, it is necessary to establish a more modest and realistic objective like the provision of financial services to the poorest people so that they can create small businesses or improve those they already have. Some of these challenges are:

- Trying to meet the demand for financial services.
- Reducing the interest rate to an accessible level for the majority of applicants through the reduction of costs, without putting aside sustainability.

Theory suggests that the incorporation of more actors (MFIs) into the microfinance market will result in a lowering of the interest rate and better service for the users. However, it is still an oligopolic³⁴ market, and the entrance of new participants has resulted in a reduction in neither costs nor interest rates.

³⁴ It is hoped that this will change in the short term in light of a higher level of competition which has begun to manifest itself in some parts of the country.

Impact of Microenterprise Focused Lenders

To measure the impact of financial services is very complex and costly. There are few studies that eliminate bias using adequate control groups. Although obtained results are not uniform for all of the case studies (they also depend on the context like the growth of the economy, the existing infrastructure, security, and the type, adequacy and focus of the financial and non-financial services that the institutions offer), it can be confirmed that MFIs positively impact different aspects of the lives of the population they serve. The following paragraphs were taken and adapted from the *Nota de Enfoque de Cgap* no. 24. “Does micro-finance constitute an effective strategy to reach the millennium objectives?” by Elizabeth Littlefield, Jonathan Morduch and Syed Hashemi³⁵.

“The poor use financial services, not only to make commercial investments in their micro-enterprises, but also to make investments in their health and education, to confront family emergencies and to satisfy the gamut of other necessities for cash that can confront them. The gamut of services includes loans, savings mechanisms, insurance, transfers, and micro-pensions. The provided evidence of millions of clients of microfinance in the entire world shows that access to financial services also translates to better nutrition and better results in health matters, such as higher rates of immunization. It permits the poor to plan their future and send their children to school for a longer period of time. It has increased women’s self-confidence and security, permitting them to confront more adequately the inequalities of gender.”

“Microfinancing shows characteristics unique among development interventions: it can produce social benefits in a consistent manner, permanently and on a large scale. World-wide there are many microfinance institutions that are well-managed and that provide financial services

in a sustainable form, without the help of donors. Consequently, microfinance shows the potential for a cycle of strengthening of sustainability and massive growth, exercising an impact on the lives of the poor, including the extremely poor.”

Poverty Eradication

“Microfinancing permits the poor to protect, diversify and increase their sources of income. The capacity to obtain a small quantity of money in order to take advantage of a commercial opportunity, pay for school registration or cover a break in the cash flow can constitute the first step towards breaking the cycle of poverty. In the same way, poor families will use a secure and convenient savings account which will let them accumulate sufficient cash in order to acquire assets such as materials for a small business, repair a roof that leaks, pay for health services or send more children to school.

Microfinancing also helps safeguard poor families from the external vulnerability that characterizes their daily lives. The loans, the savings and the insurance policies contribute to smooth fluctuations in income and to maintaining consumption levels, including during unfavorable periods. The availability of financial services permits the mitigation of unexpected emergencies, commercial risks, seasonal recessions, or unexpected occurrences such as floods or a death in the family, aspects which can push a poor family to misery.”

Promotion of Childhood Education

“One of the first things that all poor people in the world do with the newly provided income of micro-enterprises is to invest in the education of their children. Studies show that it is more probable that the children of clients of microfinance will attend and stay in school for longer periods

³⁵ The references for the studies and research that support the conclusions mentioned here can be found in the *Nota de enfoque* at the following site: www.cgap.org

of time. In the homes of microfinance clients, the dropout rates are much lower.”

Improvement in the Health of Women and Children

“In general, illness constitutes the most important crisis for poor families. The death of a family member, the absence of work when sick and the costs related to health services can exhaust the income and savings of poor families.”

“The homes of microfinance clients seem to have better nutrition, health practices and outcomes than those of non-clients. They have a higher level of income and are more stable in general which translates to a better level of nutrition, better living conditions and more preventive health practices.”

“Besides financial services, some microfinance institutions also provide educational services on health matters. Some programs give loans for water, sanitation and housing. A growing number of microfinance institutions have collaborated with insurance companies to offer health insurance to their clients.”

Female Empowerment

“In general, micro-finance programs have concentrated on women as clients. Frequently,

women are generally more responsible financially and have a better payment performance than men. Also it has been shown that there is a higher probability they will invest in the home and in the welfare of the family. Possibly the most important thing is that the access to financial services can provide women with more confidence, a higher probability of participation in family and community decisions and give them the capacity to confront the systemic inequalities of gender. But this empowerment is not automatic: the issues related to gender are complex. The appropriate program design can have a strong positive effect on the empowerment of women, making them more active, with a more active role in family decisions and increasing the investment in the family welfare.”

As the note mentions quickly, some institutions combine financial services with non-financial services like health services and health education, collaboration services in the commercialization of products, and trainings on anything from managing a business to female empowerment and literacy. Each one of these services amplifies the impact of the financial service in aspects such as reproductive health, nutrition, management of undertakings, empowerment of women, etc³⁶.

Coverage of Microenterprise Focused Lenders

Mexico represents a great challenge for MFIs in regards to coverage; it is an extensive country with large variations in the distribution of the population: a high population density in urban centers and a highly dispersed population in the rest of the national territory. According to the statistics of the *Consejo Nacional de Población* (CONAPO), a little more than 70 million Mexicans (70.4% of the population) are urban and are distributed between 363 cities.

The urban population is divided into nine large metropolitan areas, each greater than a million inhabitants, and in these nine cities lives 50% of the urban population (35% of the total population of the country). In addition there are 81 cities with populations between 100,000 and 1 million inhabitants in which reside almost 28 million people, and 273 small cities in which almost 9 million people live. The majority of the microfinance institutions operate within these urban zones, both as a base to reach other semi-rural and rural localities and as a market to serve in itself.

87,000 communities. The biggest challenge for all types of services are the less than 64,000 communities in isolated conditions that are home to almost 5 million people, the majority of which are in conditions of poverty or extreme poverty. These conditions of isolation are directly related to the poverty level of the population, and it is in precisely these isolated communities that the majority of the low-income people in the country are found.

National Coverage

For the analysis of geographical coverage, information was compiled from the 54 practicing institutions of *Prodesarrollo*, the 8 micro bank networks of AMUCSS, and the branches of *Admic*, *Finsol*, *Fondo 5 de Mayo* and *Pronegocio*. It is estimated that their combined coverage represents 89% of the total existing branches of microfinance institutions focused on microenterprise in the country³⁷.

In Mexico there are almost two (1.75) branches or microfinance service centers

Total Mapped Branches	906
Estimated Total	1,017 ³⁸
% Compiled	89%

As opposed to this 70% urban concentration, the other 30% live in rural areas. According to data from the year 2000, six and half million people live in 45,000 localities smaller than 2,500 inhabitants, located in areas near cities and regional centers. There are areas more dispersed; along the length of Mexican roads live a little more than 13.2 million people distributed in almost

for every 200,000 inhabitants, but this coverage is not uniform across the entire country. In the State of Mexico, Chiapas, Oaxaca and the Federal District there are an average of 9.4 microfinance branches or service centers for every 100,000 inhabitants, while in the rest of the states, the proportion does not even reach one branch or service center³⁹.

³⁷ In January of 2007 a census was taken of the institutions affiliated with Prodesarrollo, their branches and service centers and the municipalities in which they operate. Additionally a study was done of the most representative institutions that are not in the network to obtain the number and location of their branches.

³⁸ To estimate the total number of branches a survey was done of the listed non-member institutions, from sources like Pronafin, 46 prospects affiliated with Prodesarrollo, other networks, and others.

³⁹ It was estimated based on the population and housing census from 2005 done by INEI and the number of branches per state.

With regard to coverage, there are branches of institutions associated or not associated with *Prodesarrollo* in every state of the Republic, with a higher concentration in the central southern states. By municipality, the branches or service centers⁴⁰ are located in 414 municipalities, 17% of the total number of municipalities in the country.

There are states which have a greater presence of microfinance institutions, but they are concentrated in the capitals and principal urban centers, while in other areas of the country, there are a smaller number of institutions, but they are found more dispersed throughout their municipalities. In addition there are areas of the country that have a small MFI presence and little coverage overall, especially in northern states where there is also a lower population density.

It is commonly considered that the presence of microfinance institutions is related to the level of poverty of the population. Of the municipalities containing the poorest zones in the country, microfinance institutions are present in 82%⁴¹.

About 25% of institutions, some of these with national coverage, account for 70% of the branches in the country while the medium and small institutions serve the rest of the population.

Zones with the Most Branches

The states of the Mexican Republic with the highest number of branches are Chiapas

with 132, the state of Mexico with 100, Veracruz with 94, Puebla with 54 and the Federal District with 49. The quantity of branches does not necessarily signify geographical coverage; in Chiapas only 35% of the municipalities have coverage, in the State of Mexico 35%, in Veracruz 21% and in Puebla 12%; only the Federal District has 88% of its delegations covered.

Of the 132 branches in Chiapas, a third are concentrated in two municipalities: Tuxtla Gutiérrez (23) and Tapachula (11). Of the 100 branches located in the State of Mexico, more than a third (17) are in the municipalities pertaining to the Conurbada Area of the Valley of Mexico and Toluca. Also, the 45 municipalities that have branches in Veracruz are in towns with urban or semi-urban characteristics.

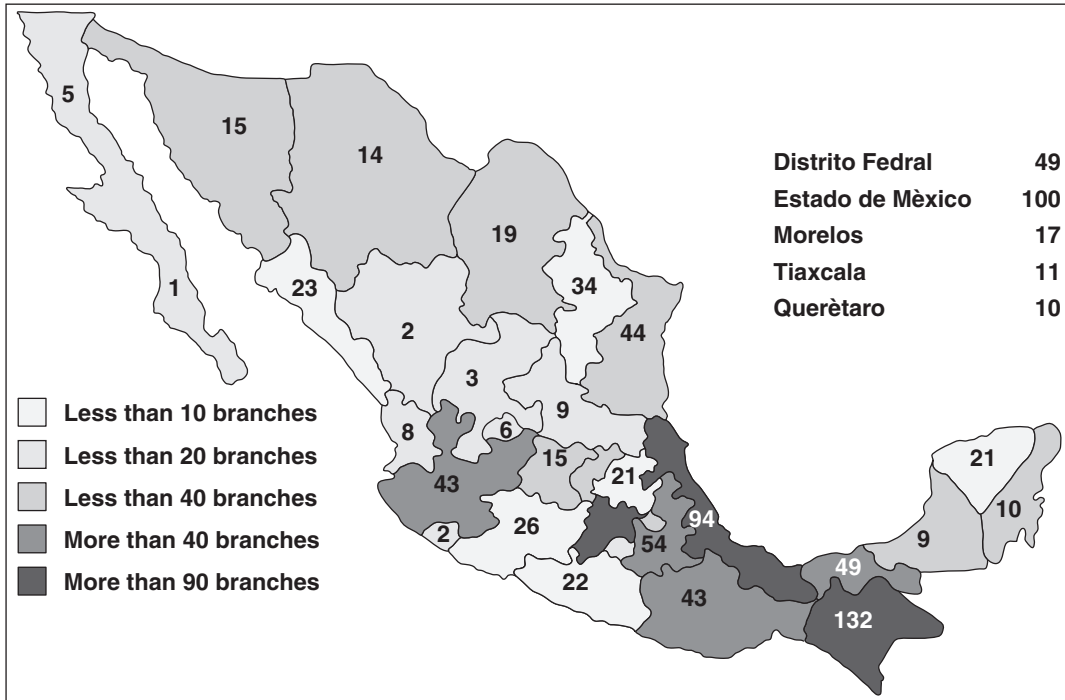
In contrast, the states with the most geographical coverage are Tabasco with an MFI presence in all 17 municipalities, the Federal District with 88% coverage, and Sinaloa with a branch or service center in 13 of 18 municipalities.

Zones with Less Coverage

There are at least four states with a lower number of branches: Southern Baja California, Colima, Durango, and Zacatecas. Between these states, Zacatecas has the least municipal coverage with only one of 52 municipalities served, while in Southern Baja California and Colima there is 20% municipal coverage (*See next page*).

⁴⁰ Depending on the type of institution, some manage branches, others regional centers and in this case no distinction was made.

⁴¹ A comparison was made of the municipalities in which the Polygons of Poverty were located by SEDESOL, through their *Programa de Combate a la Pobreza Urbana (Hábitat)* (Program to Combat Urban Poverty) and the municipalities covered by the institutions of *Prodesarrollo*.



Major Challenges for the Sector

The institutions that comprise the sector have come a long way since they started offering their services. The experience acquired since then is manifested in the achievements in coverage, sustainability and in a large number of cases, the professionalization of the sector, including improvements in and amplification of the services offered. As the future draws near and as the sector matures, these same institutions confront large challenges and demonstrate the necessity to consolidate and amplify the impact of the work they carry out:

I. General Adoption of Best Practice and Code of Ethics

Microfinance institutions focused on microenterprise have emerged from the start with a strong commitment to social issues in the work that they do, as well as the objective of impacting the quality of life of the people they serve. Their organizational culture emphasizes certain values and ethical principles such as:

- **Equity** impartiality and fair treatment of their associates and clients.
- **Commitment** to the growth of clients and associates and the improvement of their quality of life.
- **Efficacy** in their operations to achieve a high level of satisfaction in the served population.
- **Efficiency** in the correct management of resources in order to offer opportune services.
- **Transparency** must occupy an essential place in the work, already transparency represents the substance of truth so that the acts of the businesses are seen in a clear and evident form.
- **Integrity** firm adhesion to ethical values of honesty, accuracy and rectitude.

From this commitment and these common values has arisen a code of ethics⁴². The signing institutions promise to actively participate in the development of a professional and competitive industry, as well as the growth of their clients. Its objective is enunciated in rules that will inspire ethical conduct in the sector and its relations:

A. With the Clients:

To communicate the truth to the clients, without inducing mistakes through the use of misdirection or the omission of information.

To establish transparent and fair prices. To deliver complete and comprehensible information to the clients about the real cost of the services.

To offer quality services. To treat each client with dignity and respect, such as providing services in a timely and agile manner.

To avoid over-indebtedness. To be professional in the measurement of risk and the real capacity for indebtedness of the client so as not to lend more than what the clients can repay.

To exercise appropriate collection practices. To treat clients with dignity and to not deprive them of their basic needs as a result of collection activities.

Privacy of client information.

Ethical behavior of employees. To assure that the employees maintain high levels of professionalism, and to avoid conflicts of interest and unethical behavior.

Feedback mechanisms. To maintain channels of communication with the

clients so that they can give feedback to the institution about the quality of service.

B. Between Institutions

To assure ethical practices of healthy competition, integrity between competitors, and application of professionalism in commercial strategies, recruitment of personnel and investment in growth.

C. With the Authorities

To always act in accordance with the law.

The challenge is to convince all institutions that serve people of meager resources to share this code and hold them to its application. This will be the basis for the consolidation of a microfinance sector with healthy practices, including collaboration toward the development of the quality of life of clients, and the avoidance of over indebtedness and monopolic practices that inhibit the improvement of services and their prices.

II. Mechanisms of Transparency that Permit the Creation of Reliable Market Information and Better Management

It is important to strengthen the mechanisms that assure transparency of market information and the evolution of institutions. The goal is to have access to timely and reliable information which permits: attraction of investors and sources of funding, measurement of financial performance, detection of reliable institutions and formation of strategic alliances in order to confront the challenges of product diversification, growth, incorporation of new technology and professionalization of the sector.

III. Social Performance Measurement

Once transparency is assured, the next step is to develop and implement measurement

mechanisms for social performance. This tool can guide existing resources towards those entities that are achieving better results as well as find and disseminate best practices that develop naturally among institutions, shortening the usual time it takes to adopt said practices.

IV. Greater Diversity of Products and Services

It is a major challenge for institutions to diversify their services (different types of credit, insurance, remittances, among others) to amplify the opportunities for clients, and at the same time, to diminish the transaction costs associated with each service, enter new markets and distribute risks in their portfolio of loans. Moreover those institutions which offer non-financial services (like education, health services, literacy, etc.) or those that are interested in doing so, have a big challenge since on one hand they have to integrate those services into their operations and grow them in a sustainable way, and on the other hand they have to develop efficient models of new services that allow them to amplify their impact on their clients.

V. Amplification of Savings Services

One of the most important challenges is to offer savings opportunities to the population served by regulated institutions. For this it is necessary to arrive at distant communities and successfully offer the service with innovative solutions that permit them to maintain low transaction costs, both those absorbed by the MFI and those incurred by the client.

VI. Greater Market Penetration, Especially in Rural Settings

The expansion of the sector into rural areas is tied to existing bank networks and transaction costs. Therefore one of the

biggest challenges is the construction of an efficient payment network that permits the organizations to work in these areas. Other equally important challenges are to develop innovative forms, introduce technology and form alliances that allow MFIs to offer services at a low cost to distant or sparsely populated areas. These innovative solutions are necessary to achieve very low costs and diminish the amount of loans needed to maintain sustainability while reaching low-income populations.

VII. Incorporation of Technology into Operations to Allow Lower Transaction Costs

Investment in technology can be very onerous for institutions that do not have sufficient scale. Technology can be in many cases an important component in the reduction of costs, the improvement and optimization of operations and the bridge to achieve greater market penetration and coverage in rural areas. If the introduction of technology in smaller institutions is not viable, it is even less viable for institutions to confront the cost of development or adaptation of technology in a sector that has only recently started to be attractive for some technology providers. The challenge of attracting funds, investment, and technology providers to develop useful solutions for the sector will be key to the growth, optimization and diversification previously mentioned.

VIII. To Identify, Form, Incentivize and Retain Human Resources for the Sector and its Institutions.

In order to comply with these challenges the sector needs certain types of support:

A. Channeling of funds and investment toward the development and

professionalization of the sector to facilitate transparency and commitment to social development:

- *Technical assistance for professionalization and efficiency.*
- *Development of products and methods to reach underserved areas.*
- *Innovation and development of products and services to serve low-income segments that are still not viable.*
- *Introduction of new technologies to make operations more efficient, amplify coverage and reduce costs.*

B. Incentives to amplify geographic coverage in the poor areas of the country.

C. An adequate legal framework that allows consolidation.

D. That there exist no parallel structures (federal or state government programs) that compete unfairly (subsidized) with the sector and make vulnerable the newly created culture of repayment.

E. Stimulation of and insistence on transparency and the application of good practices included in the code of ethics in order to promote greater transparency and healthy practices in the market.

F. Assurance of greater competition in the market for credit information, including the interchange of basic information between all credit information agencies that have licenses and are regulated to operate.

G. To adapt fiscal and tributary policies in a manner that stimulates the healthy development of the sector and that makes the fiscal interactions between institutions homologous.

CHAPTER 2

Benchmarking Microfinance in Mexico 2006

In Brief

Mexico has one of the most dynamic microfinance markets in Latin America and the Caribbean (LAC). It has several giant industry leaders, new institutions entering the market at an accelerated pace, and a microfinance industry with high growth potential. At the end of 2006 Mexican microfinance institutions (MFIs) showed high levels of performance in various categories. Due to a strong, unsatisfied demand for financial services and the lack of supply from the traditional finance sector, MFIs quickly expanded in order to serve the country's low income sector. Leaders like **Compartamos** exemplified the potential of the Mexican market by pioneering access to capital markets and through their far-reaching efforts.

Mexican MFIs are also recognized for their focus on group credit methodologies, their high profitability, and their low average credit. Measured by indicators such as return on assets, the MFIs ranked among the most profitable in all of Latin America in 2006. It is necessary to note that these indicators only tell part of the story⁴³: measured by their financial and operational self-sufficiency, as well as by their profit-margin, Mexican MFIs had results similar to the rest of the region, although a few MFIs that are bigger, more profitable, and more sustainable, stand out among the majority of institutions⁴⁴.

Despite this, Mexican MFIs face major challenges when their performance is compared to Latin America in general. Mexican institutions were slightly less leveraged and used their assets less productively. They reported extremely high costs, and in particular very high operating costs (administrative and personnel), and

they had to generate large revenues through high interest rates in order to cover these costs. However, it is important to note that, as with profitability, these indicators do not tell the full story. On one hand, Mexico has structural differences that elevate the costs of offering financial services. On the other, offering the small loans associated with group lending methodologies that predominate in Mexican microfinance does not allow the fixed transaction costs to be well spread among the loans; in other words, costs are proportionally higher when they are divided among the sum of the loans or among the total assets for small loan sizes (See "*The Cost of Microfinance*").

In order to look at these and other issues, **Prodesarrollo** and Microfinance Information Exchange, Inc. (MIX) present Benchmarking Microfinance in México 2006. The institutions have combined forces to create the most comprehensive benchmarking information for Mexico to date in order to measure and monitor the performance of Mexican MFIs. Using standard international indicators, benchmarks allow comparisons between institutional peer groups with similar characteristics. This report provides an in-depth analysis of the performance of Mexican MFIs in relation to other institutions within their own country and the latin american region⁴⁵.

Comparative Statistics

The data used current up to December 31, 2006 with a total of 228 Latin-American MFIs, 30 of which are Mexican (13.1% of the MFIs). All information was voluntarily given, standardized, and adjusted according to the methodology from the MIX MicroBanking Bulletin. For the majority of Mexican institutions (26 institutions),

43 It should be noted that the small loan sizes and therefore the assets that Mexico exhibits relative to other countries in the region are much less (\$44 million MN in Mexico as opposed to 80 million in LAC) and in many their reach is proportionally more due of the aforementioned smaller loan size.

44 The sample of institutions used for this report includes *Caja Libertad* and *Caja Popular Mexicana*, two large cooperatives that have different characteristics than the other MFIs in Mexico: greater outreach and scope, higher average loan size, lower profitability, lower revenues and costs, riskier portfolios. These characteristics are similar to the rest of the region. Since they are only two participating cooperatives, they could not form a separate peer group.

45 For more information on the definitions and methods employed please visit: www.mixmbb.org and www.themix.org.

the data was gathered and verified by *Prodesarrollo, Finanzas y Microempresa AC*.

From the 30 institutions that make up the sample:

- 27 are microfinance institutions or micro-enterprise focused lenders⁴⁶.
- 2 are *cajas de ahorro* (non bank financial intermediaries).
- 1 is a consumer credit provider.

The analysis done is statistical, all of the results presented are medians⁴⁷ and 10 categories for comparison of peer groups were created:

1. Scale: Mexican MFIs of small, medium, and large scale.
2. Methodology: Mexican MFIs with individual, solidarity and village bank lending methodologies.
3. Average loan balance: Mexican MFIs with low, medium and high average loan balances.
4. Financially Self-Sustainable Mexican MFIs (Financial Self-Sufficiency >100%).
5. Mexican MFIs that are not Financially Self-Sustainable (Financial Self-sufficiency < 100%).
6. Region⁴⁸: Mexican MFIs located in the north, center and south of the country.
7. CA: MFIs located in Central America.
8. LSA: MFIs located in South America.
9. LTC: MFIs located in the Caribbean.
10. LAC No Mex: All Latin American and Caribbean MFIs except the Mexican ones.

Financing Structure

Leverage in Mexico, measured by the capital to asset ratio, slightly lower than the rest of the region (29% capital / assets in Mexico vs. 25.3% in LAC No Mex). Although this difference was greater when compared to more leveraged regions like LSA (South America) with a 21.5% leverage, In 2006 Mexican MFIs were characterized by a less productive use of their assets, independent of the region they were in (North, South, Central). In Mexico MFIs used 73.6% of their assets as loan portfolio compared to 80.8% in the rest of LAC. It is important to note that although new sources of private and national funding are being incorporated, from providers like *Banamex*, *Banorte*, *Bancomer* and *Banca Mifel*, it is still difficult for MFIs to gain access to this type of financing. There are also several options for funding from different government programs available.

However, there are some groups of institutions that used the majority of their assets for their loan portfolio, notably large institutions like *Finca México* and *Fincomún* which also managed to access more private funds relative to the small and medium institutions. *Compartamos*, one of the institutions with the farthest outreach in the region, was the first Latin-American institution to emit bonds in the capital market in July 2002. Mexican MFIs with individual guarantees showed a slight increase in asset productivity and increased leverage compared to MFIs focussing on group lending methodologies.

46 90% (27 institutions) are traditional, microenterprise focused lenders, therefore the work results mainly reflect this group.

47 Median was reported due to the asymmetry and polarization of the reported values in several cases. This asymmetry causes the average and the median to be notably different in some cases, making it more useful to observe the median in order to understand the nature of the population.

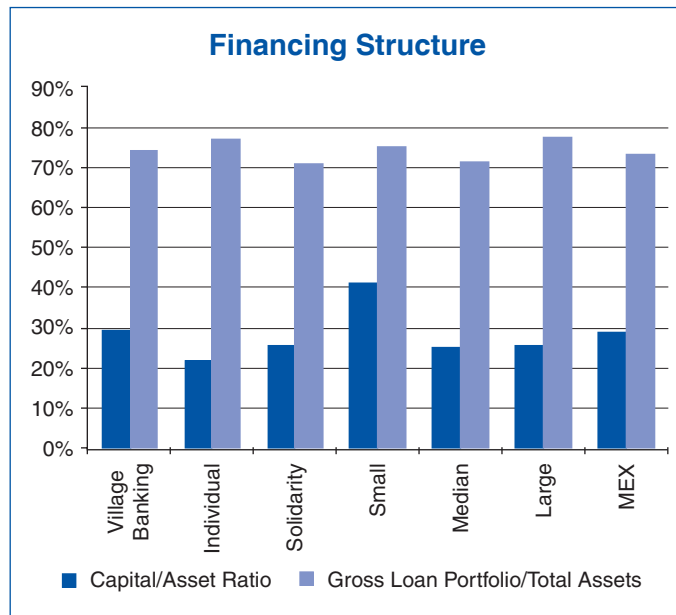
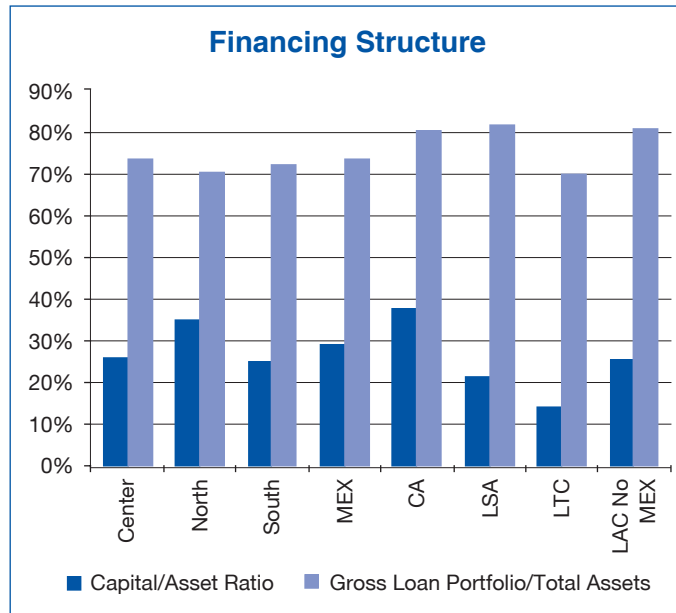
The median of a group of numbers that are ordered in magnitude is the central value (if there are an odd number of values), or the value exactly halfway between the two central values (if there are an even number of values)

Example: The group of numbers 3,4,4,5,6,8,8,8 and 10 has median 6.

Example: The group of numbers 5,5,7,9,11,12,15 and 18 has median:

Median = $\frac{1}{2} (9+11) = 10$

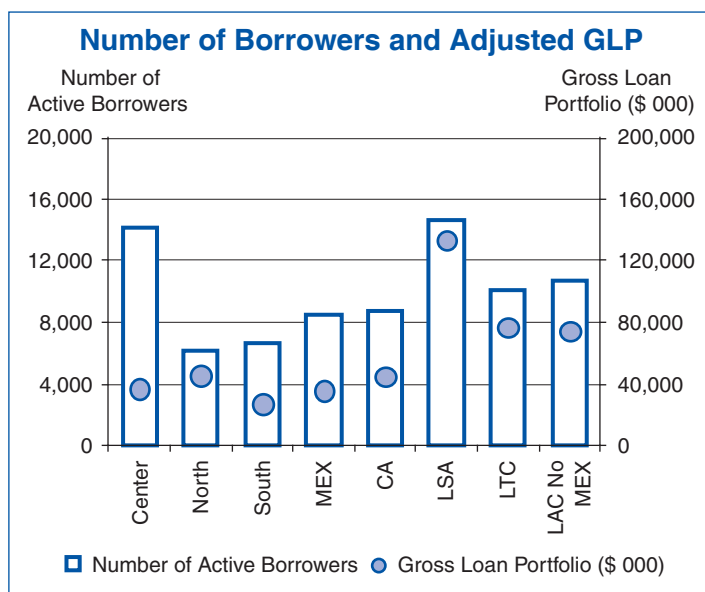
48 There are some institutions that operate in various regions, but because the sample is small and not representative they are not included in the regional grouping.



Outreach and Scale

With 8,400 borrowers per institution, the outreach and scope of Mexican MFIs in late 2006 was less than the rest of Latin America and the Caribbean (10,818) despite the fact that some of the largest microfinance institutions in the region are in Mexico (for example *Caja Popular Mexicana* and *Compartmentos*). Why does Mexico have such a low number of borrowers per institution relative to the rest

of Latin America, even when organizations such as *Compartmentos* are included in the sample? Although Mexico boasts several giant institutions, the introduction of a large number of new MFIs to the sector heavily decreased the value of the median. Despite their relatively small size, many Mexican MFIs grew rapidly due to a strong demand for financial services, bringing in 25% more borrowers in 2006. In fact, seven of the organizations that participated in this survey increased the number of loans

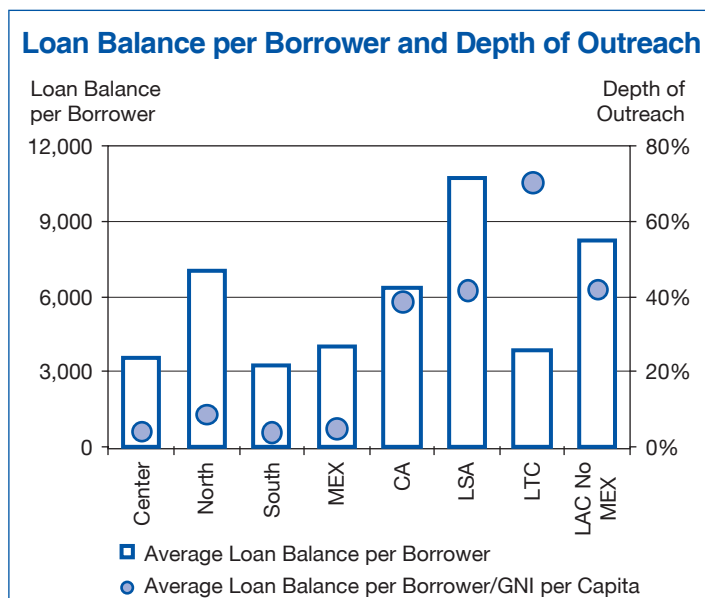


granted by 50% or more, reflecting the vitality of the market.

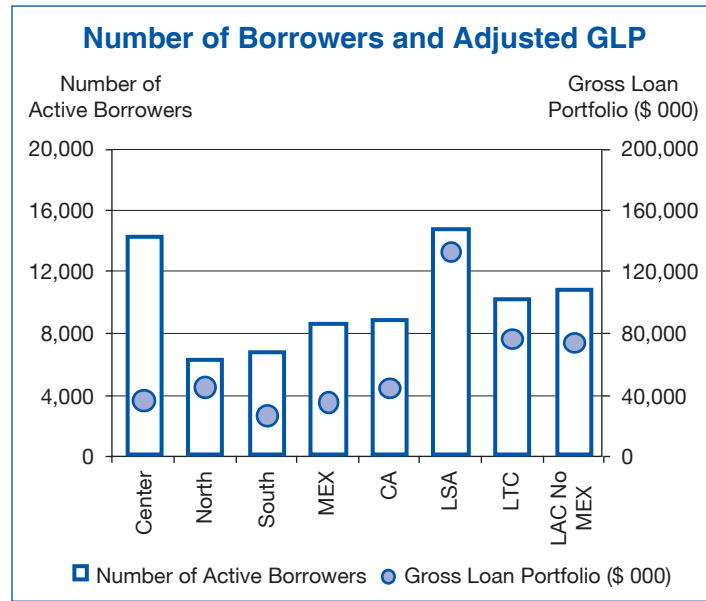
Another characteristic that defines microfinance in Mexico is small loan sizes. Mexican MFIs had a loan balance per borrower that was approximately half that of the LAC, with an average of 4,048 Mexican pesos compared to 8,265 Mexican pesos in the rest of the region. This is clearly demonstrated in the smaller average gross loan portfolio of Mexican

institutions weighed against the other regions (35.9 million MN vs. 61.9 million for Latin America on average). In terms of GNI per capita, Mexican MFIs have shown considerable depth of outreach (Average Loan Balance per Borrower/GNI per Capita), but due to Mexico's elevated GNI per capita relative to other countries in the region, this result is less comparable.

Mexican MFIs also exhibited a strong focus on gender, with 86%⁴⁹ of loans made

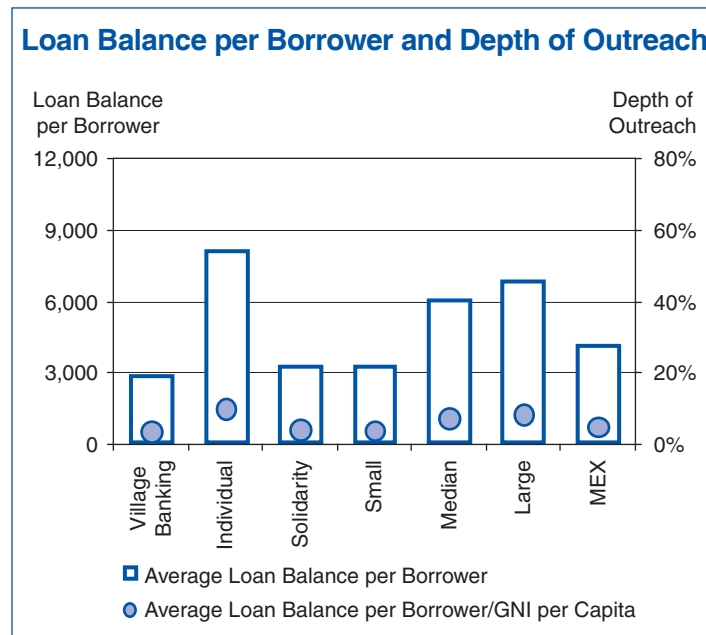


⁴⁹ Said percentage includes *Caja Popular Mexicana*, *Caja Libertad* and *Financiera Independencia* which decreased the general median of the microenterprise focused lenders.



to women compared to 58% in Latin America. Concurrently, organizations with group lending practices showed a higher proportion of female borrowers with respect to institutions with individual lending practices, as did organizations with small or medium average loan sizes relative to those with large average loan sizes. Of the 30 MFIs that took part in this study, only three offered voluntary savings accounts to their clients: *Caja Libertad*, *Caja Popular Mexicana* and *Fincomún*.

Within Mexico the collection of organizations that serve the northern part of the country presented the highest average loan balance per borrower in contrast to the southern region. This difference occurred because a large proportion of institutions in the North provide larger loans on average (due to their focus on home-improvement loans and agricultural credit), furthermore the population being served differs from the traditional population of MFIs focused on microenterprise in other zones (as is the



case with some consumer credit institutions, agricultural credit, and *cajas*).

The larger Mexican MFIs have impressive outreach not only within Mexico, but also when compared to the entire Latin-American region. With a median number of borrowers of 394,762, the big MFIs in Mexico reached almost 10 times more clients than their equivalent competitors in the rest of the region and 40 times more than the median Mexican MFI. Despite their enormous outreach, the large Mexican MFIs finished 2006 with a median loan portfolio only 20% the size of its peers in the rest of the region. As in the country as a whole, the large Mexican MFIs gave relatively small loans with an average loan balance per borrower of 6,772 MN in 2006 compared to 15,448 MN for the large MFIs of the LAC. The small and medium Mexican MFIs also gave smaller loans than their peers in the rest of the region.

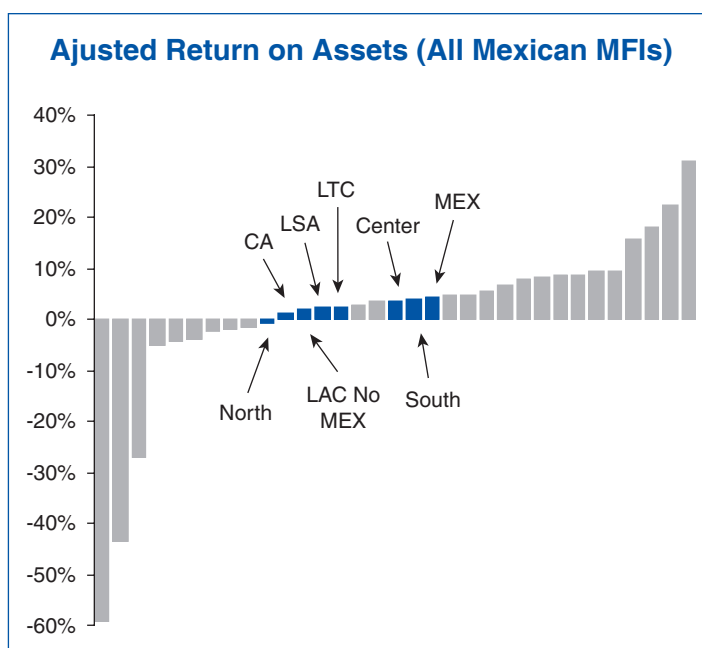
MFIs that used village banking systems were precisely those that gave the smallest loans and operated in rural areas, while individual lenders had the highest average loan size, up to 3 times larger. This is due in part to the fact that the individual loan

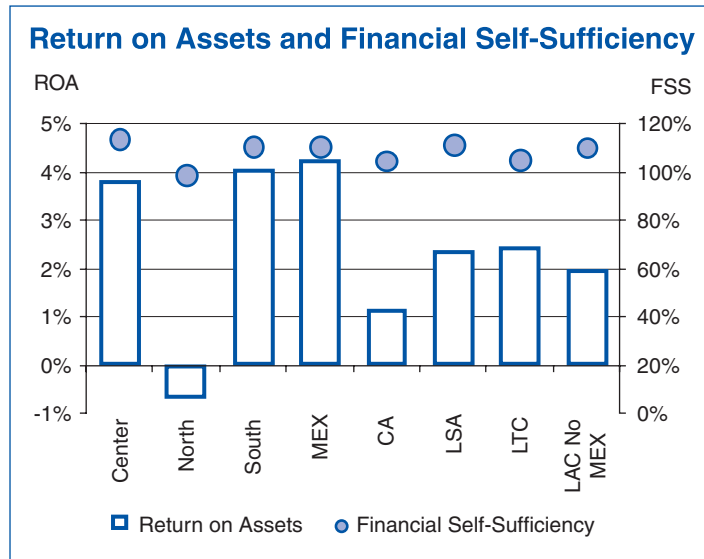
methodology, practiced in Mexico principally by consumer credit institutions or by *Cajas* and *Cooperativas*, works with larger sums of credit than group loan methodologies since they have different target markets.

Profitability and Self Sufficiency

The Mexican microfinance market is recognized the world over for the high profitability of its institutions according to indicators such as Return on Assets (ROA) and Return on Equity (ROE). In 2006 Mexican MFIs reported conspicuously high profitability with 4.2% ROA and 20.2% ROE, double the numbers of the rest of the region. Although there are extreme cases of profitable and unprofitable organizations, the majority of institutions ended the year between 0% and 10% ROA.

Nevertheless, these indicators tell only a part of the story of the performance of Mexican MFIs. Most MFIs in the country showed low average loan balances per borrower (half of LAC figures). Likewise, Total Assets and Total Equity for Mexican MFIs were less compared to those of the rest of Latin America.

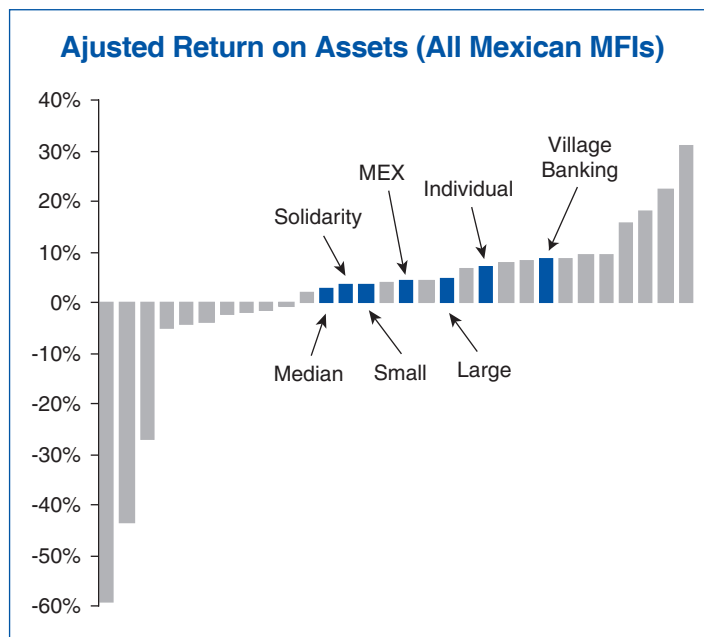




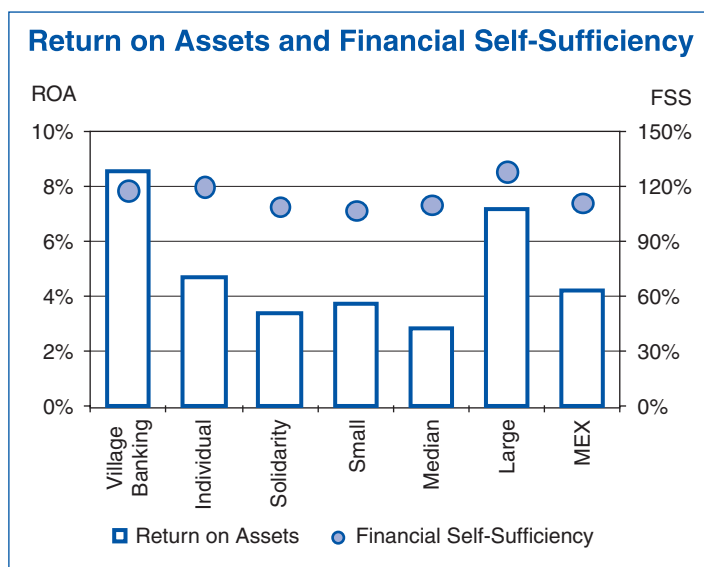
One finds different results when considering the levels of self-sufficiency⁵⁰ of Mexican MFIs, as opposed to their profit margins; which are indicators that do not depend on the size of the operations. Mexican MFIs finished the year with a level of financial self-sufficiency of 111%, slightly more than the 110.6% of the rest of the Latin-American region. In fact, of the 30 MFIs included in the benchmarks, 66% were self-sufficient, a statistic very similar to the rest

of the region. Analyzing the profit margin yields almost the same results: in Mexico the margin was 9.9%, comparable to LAC with a median of 9.7%.

Northern Mexico displayed the lowest levels of profitability relative to other geographic zones of the country. Again, the sample of northern institutions was distinctive (consumer credit, home improvement loans and agricultural loans), and the small number



50 Self-sufficiency measures the ability of an MFI to cover their costs using their revenues.



of northern organizations reflects the lack of a typical microfinance presence in that zone (*See Coverage, chapter 1*).

The larger Mexican MFIs were much more profitable according to ROA (7.15%) and ROE (33.70%) than the medium and small ones, due to greater economies of scale and higher revenues.

In Mexico it is evident that the extent of financial self-sufficiency is similar to the rest of the region when compared on an aggregate level. However, when analyzing specific groups we find:

- Large Mexican institutions were more sustainable than large institutions in the rest of the region (128% versus 114% ASF) serving approximately 10 times the number of clients.
- Medium institutions exhibit measures of sustainability that are similar between Mexico and the rest of the regions (111% versus 110% ASF), as well as a comparable number of clients served.
- Small Mexican institutions presented higher levels of sustainability than their peers from LAC (107% versus 100%

ASF), as well as a greater number of clients served (5,019 versus 3,157).

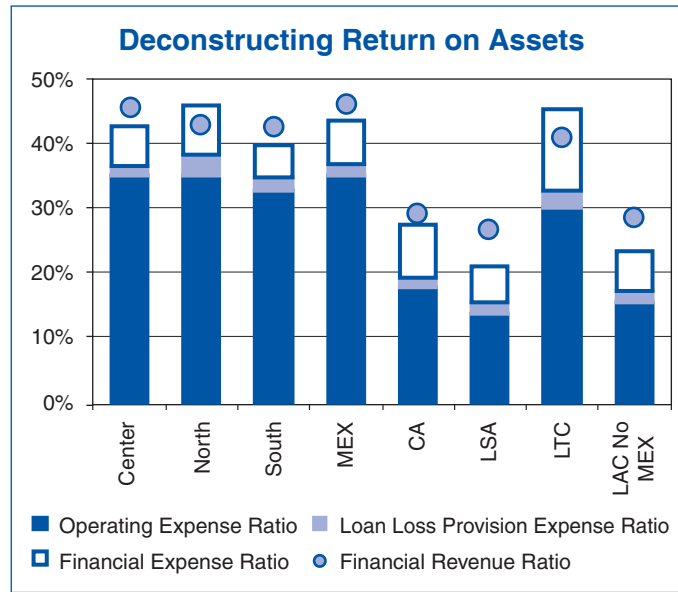
Income and Expenses

Mexican MFIs stood out in the region in 2006 for their high income and expense ratios. They showed financial revenues equivalent to 46.7% of their assets, greater than the 28.6% from the rest of the region. They also showed high financial expenses, provisioning expenses, and especially operating expenses (administrative and personnel) with no regard for the geographic location within the country (North, South, Central).

One of the reasons for the high profitability demonstrated by Mexican MFIs is their sizeable revenues. A large part of these revenues come from the interest rates, which are the highest in the region measured as nominal yield on gross portfolio.⁵¹ Said indicator is 63.8% in Mexico, twice the level of the rest of the region (31.4%).

It is important to analyze the reasons behind the high interest rates in Mexico, some of which are external to the MFIs (external factor), others which are within

⁵¹ The results on yield on gross portfolio (nominal) do not include the 15% value-added tax (IGV) charged by the Mexican government.



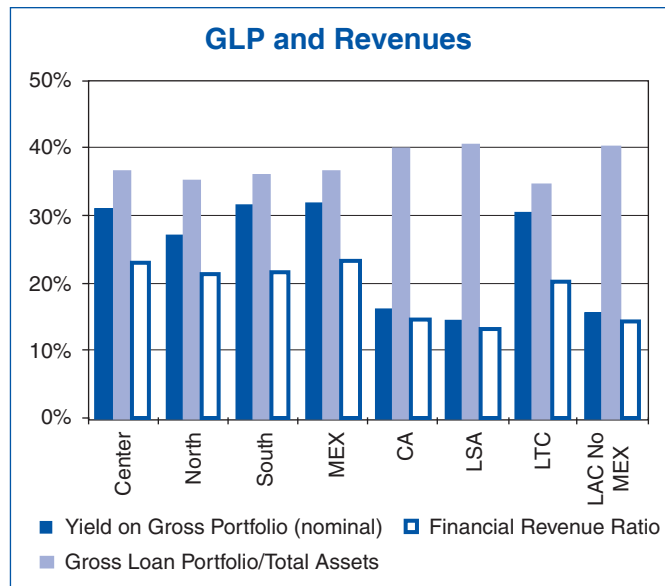
their control (internal factor) and some which are a combination of the two (mixed factor). The MFIs charge interest to cover the following:

- High operating costs associated with the structure of the country (external factor) and the particular characteristics of Mexico’s microfinance market, exacerbated by the increased interest rates associated with smaller loans.
- Higher funding costs that in some cases approximate interest rates charged by

microlenders in other countries within the region (external factor).

- Desired profit margins, in order to achieve self-sufficiency and/or to allow rapid growth to increase the number of clients (internal factor).
- In the case of small MFIs, insufficient economies of scale, due to their size (mixed factor).

The first reason is the need to cover high operating costs as seen in the table “Deconstruction of Return on Assets”.



Average Salaries (Based on Medians) ⁵²			
	Average Salary/GNI Per Capita (%)	Average Salary (MN)	Personnel Expense Ratio (%)
Mexico	143.0%	79,540.11	17.4%
Bolivia	935.3%	10,989.81	6.8%
Ecuador	348.5%	28,617.03	6.6%
Nicaragua	812.6%	9,901.71	7.5%
Peru	384.3%	28,399.41	8.2%

These high costs, in turn, are due to a mix of *five* underlying factors:

1. **Costs of human resources**—One of the most important costs for a microfinance firm is the cost of its personnel. Although a more in-depth study of the cost of human resources is needed (base salaries and all other associated costs), a preliminary analysis indicates that expenses related to personnel in Mexico are substantially higher in absolute terms than in other countries in the region. In the following table is a comparison of average salary and the resulting personnel expense ratio among key countries in the region.

Relative to the gross national Income (GNI) per capita, salaries paid by Mexican MFIs were less than in the other countries listed (this is due mainly to Mexico's high GNI compared to other countries in the region). However in absolute terms, the average salary in Mexico was approximately 3 times the amount of the salaries paid in Ecuador and Peru, and 8 times the amount of the salaries paid in Bolivia and Nicaragua. The Purchasing Power Parity (PPP) in Mexico was 109,136 MN during 2005, a reflection of the higher cost of living compared to a PPP of 63,436 in Peru, 29,814 in Bolivia and 39,716 in Nicaragua⁵³.

That's why, when calculating the fraction with operational costs in the numerator and assets in the denominator, both the higher value of these costs and the lower asset value (due to smaller Mexican loans) contribute to a higher ratio.

2. **Small loan balances**—The average balances are notably lower than in other countries in the region. When the size of the loan is small, the transaction costs are elevated relative to the amount of credit. Since the income and expense indicators presented use assets and loan portfolio as the denominator, both of which are logically smaller, the ratios that measure costs appear enhanced. Efficiency and productivity indicators like cost per borrower and borrower per staff-member can in some cases eliminate the effect of smaller loan sizes. A closer look at the expenses and loan balances in Mexico and other countries in the region demonstrates this:

Mexican MFIs lent in smaller sums than other countries in the region. Since the loan portfolio normally constitutes the majority of a MFI's assets (see asset productivity graph above), these small loans formed the base of small assets that contributed to the high total expense ratio in Mexico. However, measuring expenses compared to borrowers rather than assets, Mexican MFIs spent more

52 Source: MIX/Prodesarrollo Benchmarks, 2006.

53 Source: Banco Mundial, 2005.

Ratios of Expenses (Based on Medians)⁵⁴

	Average Loan Balance per Borrower (MN)	Operational Expenses/Total Assets (%)	Cost per Borrower (MN)
Mexico	4,048.50	35.0%	1,741.47
Bolivia	15,211.12	12.8%	2,016.53
Ecuador	10,741.79	13.8%	1,657.55
Nicaragua	7,291.54	14.8%	1,107.24
Peru	11,310.53	14.1%	1,778.67

or less the same amount as MFIs in Ecuador, Bolivia and Peru (Nicaragua was the exception).

3. Structural differences in the country—In Mexico there are also structural differences unique to the country that contribute to the high operating expenses for Mexican MFIs, although the impact of these is limited.

Distances are longer due to the size of the country, increasing logistical and transportation costs, especially for institutions that operate on a multi-regional basis. In addition, high salaries raise the amount that MFIs have to pay for training and consulting fees relative to other countries in the region. Further research is necessary to determine the impact of these structural differences.

4. Less competition and less product diversity than in other markets—

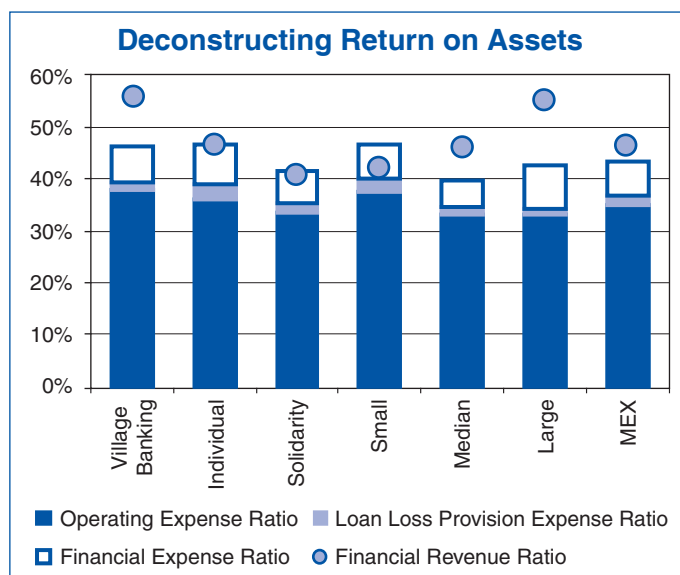
Over the past few years smaller countries, such as Ecuador, Bolivia, Peru, and Nicaragua, with their extremely competitive microfinance markets, have proved that competition between players in this segment tends to lower the interest rate, which in turn spurs the need to streamline expenses, increase in scale and consequently leads to increased operational efficiency. Another result of the competitive atmosphere in these countries has been diversification of products offered by MFIs toward individual

loan products, including consumer and home-improvement credit, micro-insurance, remittances, etc. Also, in these countries there has been a fall in the interest rate in conjunction with improvements in efficiency, outreach, and access to information through consolidated credit bureaus that have ample coverage.

Currently an equivalent level of competition does not exist in Mexico especially since the national market is still developing in an environment with a strong demand for microfinance. Nevertheless, in the current dynamic atmosphere, we expect to see change in the next few years with many of the newer, smaller MFIs with similar expense profiles and little product diversification that should compete increasingly as they grow, especially with internationally recognized institutions like *ProCredit* and *MiBanco* that have announced their intentions to enter the Mexican market.

5. Rapid growth—Another factor that influenced costs is the rapid growth of Mexican MFIs, due to increased investment which implies the continuous opening of branches that are under their point of equilibrium. However, it further diminishes average loan balances and relative assets because most lending mechanisms adjust to the borrowers needs and therefore grant smaller loans to begin with to generate

⁵⁴ Source: MIX/Prodesarrollo Benchmarks, 2006.



a credit history with that borrower. To evaluate the impact of this factor more research is required to determine the consequences of rapid growth in Mexico compared to other countries that have experienced similar conditions.

Despite these factors, there are some institutions in Mexico, like *Asol*, which have demonstrated a low total cost over asset ratio (30.8%) closer to the rest of the region.

By looking at the peer groups within the country, we note that the large Mexican institutions exhibited comparable expenses to medium sized and small MFIs, but had higher revenues. As a whole, Mexican MFIs demonstrated a tendency opposite that of the rest of the region. The largest MFIs earned higher revenues than the smallest, while in the rest of Latin America it was the small organizations that generated large levels of relative revenues. The revenues of large institutions in the rest of LAC were limited by the intense competition amongst themselves in various countries.

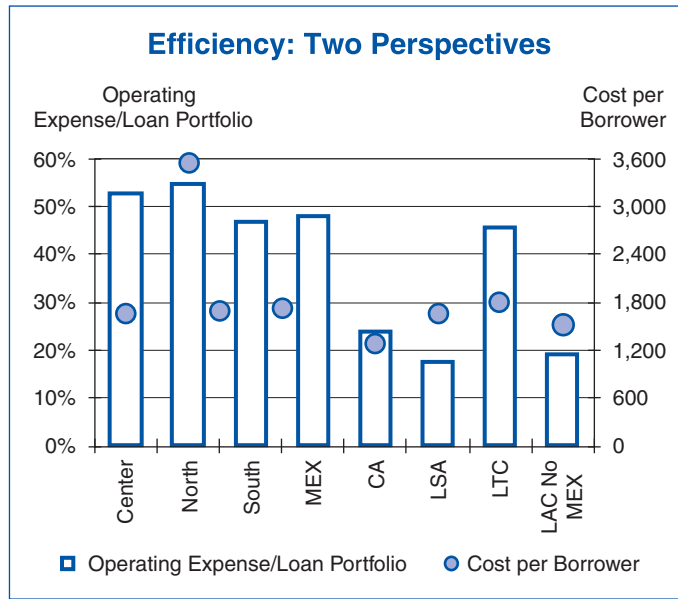
Cooperatives like *Caja Popular Mexicana* or *Caja Libertad* have operated with expense levels similar to the rest of the region, although they serve a different market than the majority of Mexican MFIs in the sample, mainly focused on individual consumer credit.

Village banking focused MFIs generated the most revenues but at the same time had the highest expenses with respect to other methodologies. This is partially due to the small loan sizes typical of that methodology which raises indicators of expenses and revenues. After analyzing efficiency indicators, institutions that operated under solidarity groups and village banking systems all presented lower cost per borrower than peer groups of institutions that used individual lending methodologies (1,619 MN/1,584 MN versus 2,260 MN).

Efficiency and Productivity

Upon observing the ratio of operating expense over loan portfolio, Mexican MFIs appear less efficient than the rest of Latin America in 2006, with a ratio of 47.80% relative to 20.9% for LAC. However, using the portfolio as the divisor we again see that this number is driven by smaller Mexican loan sizes. Observing cost per borrower generally eliminates this influence, and the afore-mentioned indicator was higher for Mexican MFIs than in the rest of the region (1,741 MN versus 1,531 MN).

The ratio of borrowers per staff-members indicates that Mexican MFIs were more productive than institutions in the rest of the region, (127 borrowers per staff-member

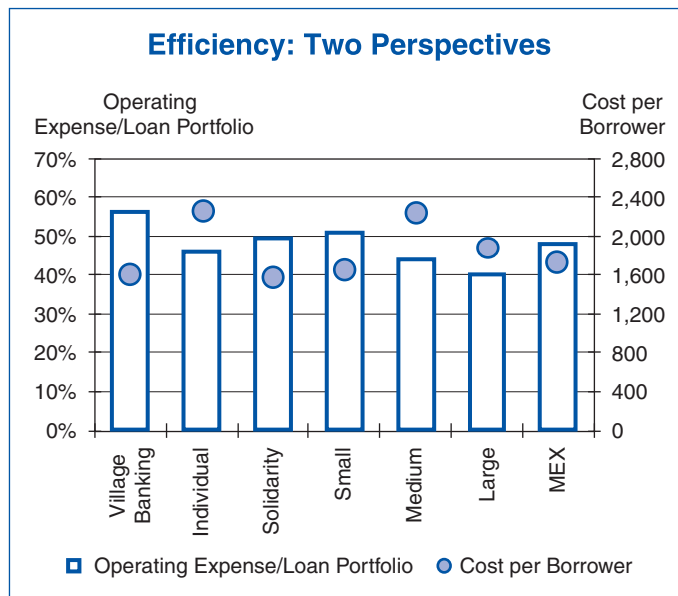


versus 118 for LAC) and this difference is increased when it is analyzed in terms of groups of large institutions (173 versus 134). *Alsol*, *Cocdep* and *Cafasa* were the three institutions with the highest ratio of clients per staff-member, demonstrating elevated productivity in the management of this resource (between 450–600 clients served per credit officer).

Therefore we can infer that Mexican institutions used their personnel in the most efficient manner and yet their costs

were higher. The reasons for this situation were explained in the previous section where we demonstrated the higher cost of human resources and other expenses incurred by organizations.

Due to the idiosyncrasies of the institutions that make up the sample from the northern part of the country (focused on consumer credit, and home-improvement and agricultural credit), and the lack of typical microfinance organizations in this zone (*See Coverage, Chapter 1*), northern Mexico



showed the most elevated operating costs as well as markedly lower productivity than the rest of the country.

Mexican MFIs that use village banking and solidarity group methodologies, like the rest of the region, exhibited a lower cost per borrower, as opposed to individual lenders. This is ostensibly because group loan practices allow a larger number of clients to be served by the same credit officer, and because the information that credit officers in Mexico must request for individual loans tends to be more than that requested for group loans.

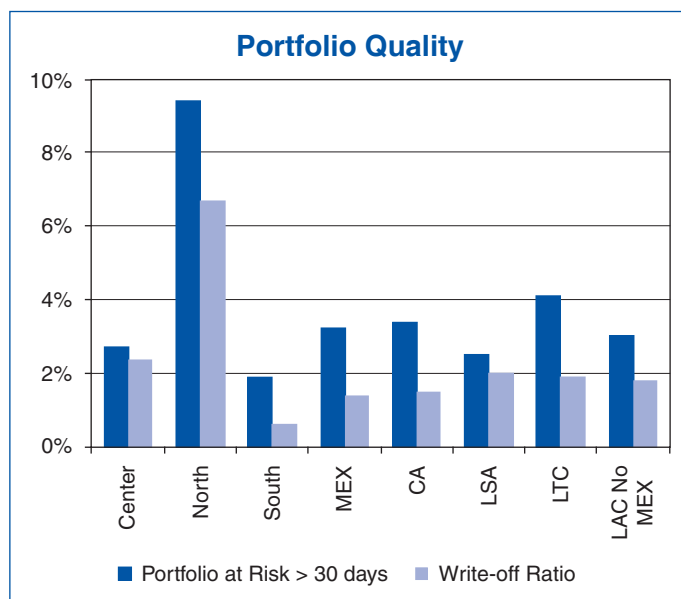
Portfolio Quality

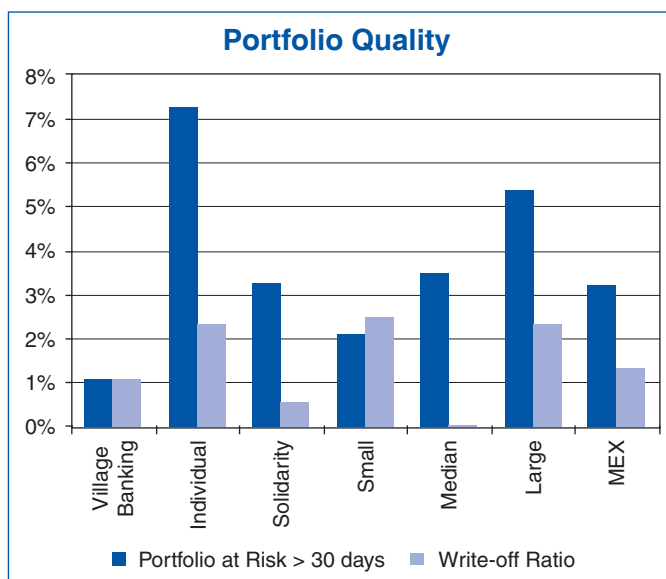
Portfolio at Risk greater than 30 days at Mexican institutions stood at 3.25% and the write-off ratio stood at 1.4% at the end of 2006. These indicators were comparable to the rest of Latin America (3% and 1.8% respectively). In Mexico's case, MFIs maintained a portfolio quality, in terms of value, similar to the rest of Latin America through a combination of effective credit evaluation methodologies, loans with group guarantees and growth in the sector. Worth highlighting are the cases of *Forjadores de Negocios*, *Cocdep* and *Alsol*, which had very low levels (less than 0.3% in all cases) of portfolio at risk.

In Mexico's northern zone, 9.4% of the loan portfolio was at risk and the write-off ratio was 6.7%, both of which were higher than other parts of the country. The North's performance was due to two reasons: the majority of institutions in that area lend higher amounts, and Northern organizations offer different types of credit (home improvement loans, loans for agriculture or fishing, consumer credit), with risk profiles different from those of clients in microentrepreneur focused institutions.

Large Mexican institutions showed greater levels of portfolio at risk than small and medium-sized institutions. Once again, large institutions showed a tendency opposite to that of the rest of the region, where large MFIs had lower overdue payment rates. This is due to the fact that the results of this group are influenced by the inclusion of the large *cajas de ahorro* and consumer credit institutions which, due to their credit methodology, present higher rates of overdue payments.

Individual credit methodologies had a ratio of portfolio at risk and of write offs that were higher than those of the other two loan mechanisms. This is partly due to the fact that this group is also influenced by the inclusion of the large *cajas de ahorro* and consumer credit institutions, and the fact that group liability





loans have fewer risks, since the guarantee is group-based, that is, the group covers the defaults that may occur within it.

Conclusion

Mexico represents one of the most dynamic markets in Latin America with many opportunities for growth in the sector, due to the high demand for microfinance services and the low supply from traditional financial institutions in a country with 100 million inhabitants. Mexican MFIs have the deepest outreach among low-income clients in Latin America, are on average as self-sufficient as those in the rest of Latin America and among them are several leaders in industry innovations. The country also offers an attractive situation for investors with socially-conscious profiles that search for financial and social returns, thanks to the profitability of the majority of Mexican MFIs.

Nevertheless, the Mexican market still faces important challenges. MFIs still require greater access to sources of commercial funding, which result in less leveraged, less productive MFIs. Perhaps the largest challenge to Mexican MFIs lies in finding innovative solutions for scaling up and diminishing their high costs. In addition, the lower level of direct competition and the elevated demand in the national market

allow MFIs to grow quickly, with low product diversification. As a result, Mexican MFIs charge higher interest rates in order to cover costs, gain a profit margin, and continue growing.

In the near future the Mexican microfinance market will experience an increase in competition due to new entrants such as the **ProCredit Group** and **MiBanco**. Interest on the part of the country's traditional banking sector and the diversification of products offered by institutions of all types will also increase. In addition, new sources of funding will permit institutions to develop new tools that will facilitate institutional growth and growth of the microfinance sector in Mexico. In the face of these challenges and opportunities, MFIs will have to improve their practices through technology solutions and diversifying their products. Currently, these institutions are slowly including other credit products (individual, housing, etc.) and services (insurance and remittances). In addition, there are already successful cases of institutions that have become regulated, or are in the process of doing so, in order to offer voluntary savings products to their clients. This diversification will permit high costs to be diminished or divided among a wider range of products. The result will be the provision of more and better services to clients, at lower prices.

ANNEXES

Annex 1: Peer Group Classifications

PEER GROUP	NO.	PARTICIPATING INSTITUTIONS
All MFIs from Mexico	30	ADMIC, ALSOL, AMEXTRA, APROS, ASEA, ASP Financiera, ATEMEXPA, AUGE, CAFASA, Caja Libertad, Caja Popular Mexicana, CAME, COCDEP, Compartamos, Conserva, Crece Safsa, Despacho Amador, DESPENNO, Espacios Alternativos, EurekaSoli, Financiera Independencia, FINC
PEER GROUPS		
Age: New 0 to 4 years	5	Crece Safsa, Forjadores, Oportunidad Microfinanzas, SemiSol, Solfi
Age: Young 5 to 8 years	10	ALSOL, AMEXTRA, APROS, ASEA, ASP Financiera, ATEMEXPA, COCDEP, Conserva, EurekaSoli, Pro Mujer - MEX
Age: Mature More than 8 years	15	ADMIC, AUGE, CAFASA, CAME, Caja Libertad, Caja Popular Mexicana, Compartamos, DESPENNO, Despacho Amador, Espacios Alternativos, FINCA - MEX, FRAC, FUNHAVI, FinComún, Financiera Independencia
Profit Status: Profit		
Profit Status: Profit	14	ASEA, ASP Financiera, CAFASA, Compartamos, Crece Safsa, DESPENNO, Despacho Amador, EurekaSoli, FinComún, Financiera Independencia, Forjadores, Oportunidad Microfinanzas, SemiSol, Solfi
Profit Status: Not for Profit		
Profit Status: Not for Profit	16	ADMIC, ALSOL, AMEXTRA, APROS, ATEMEXPA, AUGE, CAME, COCDEP, Caja Libertad, Caja Popular Mexicana, Conserva, Espacios Alternativos, FINCA - MEX, FRAC, FUNHAVI, Pro Mujer - MEX
Sustainability: FSS		
Sustainability: FSS Financial Self-Sufficiency > 100%	20	ADMIC, ALSOL, AMEXTRA, ASEA, ASP Financiera, ATEMEXPA, CAFASA, COCDEP, Caja Libertad, Caja Popular Mexicana, Compartamos, Conserva, Despacho Amador, FINCA - MEX, FRAC, FinComún, Financiera Independencia, Forjadores, Pro Mujer - MEX, SemiSol
Sustainability: Non-FSS		
Sustainability: Non-FSS Financial Self-Sufficiency < 100%	10	APROS, AUGE, CAME, Crece Safsa, DESPENNO, Espacios Alternativos, EurekaSoli, FUNHAVI, Oportunidad Microfinanzas, Solfi
Scale: Small		
Scale: Small Gross Loan Portfolio < USD 4 million	16	ALSOL, AMEXTRA, APROS, ATEMEXPA, AUGE, CAFASA, COCDEP, Conserva, DESPENNO, Espacios Alternativos, FRAC, FUNHAVI, Forjadores, Oportunidad Microfinanzas, SemiSol, Solfi
Scale: Medium		
Scale: Medium Gross Loan Portfolio between USD 4 and 15 million	8	ADMIC, ASEA, ASP Financiera, CAME, Crece Safsa, Despacho Amador, EurekaSoli, Pro Mujer - MEX
Scale: Large		
Scale: Large Gross Loan Portfolio > USD 15 million	6	Caja Libertad, Caja Popular Mexicana, Compartamos, FINCA - MEX, FinComún, Financiera Independencia
Methodology: Village Banking		
Methodology: Village Banking	7	ASEA, CAME, Compartamos, FINCA - MEX, Forjadores, Oportunidad Microfinanzas, Pro Mujer - MEX
Methodology: Solidarity		
Methodology: Solidarity	13	ADMIC, ALSOL, AMEXTRA, ATEMEXPA, CAFASA, COCDEP, Crece Safsa, Despacho Amador, DESPENNO, Espacios Alternativos, EurekaSoli, SemiSol, Solfi
Methodology: Individual		
Methodology: Individual	8	APROS, ASP Financiera, Caja Libertad, Caja Popular Mexicana, Conserva, Financiera Independencia, FinComún, FUNHAVI
Loan Balance per Borrower: Low		
Loan Balance per Borrower: Low Average Loan Balance per Borrower: < \$3500 USD	13	ALSOL, ATEMEXPA, CAFASA, CAME, COCDEP, Conserva, Espacios Alternativos, FINCA - MEX, Forjadores, Oportunidad Microfinanzas, Pro Mujer - MEX, SemiSol, Solfi
Loan Balance per Borrower: Medium		
Loan Balance per Borrower: Medium Average Loan Balance per Borrower: between \$3500 and \$7000 USD	9	ADMIC, AMEXTRA, APROS, ASEA, AUGE, Compartamos, DESPENNO, FRAC, Financiera Independencia
Loan Balance per Borrower: High		
Loan Balance per Borrower: High Average Loan Balance per Borrower: > \$7000 USD	8	ASP Financiera, Caja Libertad, Caja Popular Mexicana, Crece Safsa, Despacho Amador, EurekaSoli, FUNHAVI, FinComún
Zone: North		
Zone: North	4	ADMIC, ASP Financiera, DESPENNO, FUNHAVI
Zone: Center		
Zone: Center	12	AMEXTRA, APROS, AUGE, Caja Libertad, Caja Popular Mexicana, CAME, FINCA - MEX, FinComún, Forjadores, Oportunidad Microfinanzas, Pro Mujer - MEX, Solfi
Zone: South		
Zone: South	11	ALSOL, ASEA, ATEMEXPA, CAFASA, COCDEP, Conserva, Crece Safsa, Despacho Amador, Espacios Alternativos, EurekaSoli, SemiSol
Region: Central America, CA		
Region: Central America, CA	68	68 MFIs from Central America: Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, Panama
Region: South America, LSA		
Region: South America, LSA	121	121 MFIs from South America: Argentina, Brazil, Bolivia, Chile, Colombia, Ecuador, Paraguay, Peru, Venezuela
Region: The Caribbean, LTC		
Region: The Caribbean, LTC	9	9 MFIs from The Caribbean: Dominican Republic, Haiti
Region: Latin America and The Caribbean, LAC		
Region: Latin America and The Caribbean, LAC	228	228 MFIs from southamerica: Argentina, Brazil, Bolivia, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Venezuela

Annex 2: Benchmarks (Reference Data 2006)

Benchmarks by Age	Mexico			Rest of Latin America		
	New	Young	Mature	New	Young	Mature
INSTITUTIONAL CHARACTERISTICS						
Number of MFIs	5	10	15	11	38	149
Age	2	6	12	3	7	15
Total Assets	13,667,277	37,321,477	86,943,509	37,881,234	79,780,081	109,529,709
Offices	5	5	20	5	9	8
Personnel	39	50	151	38	78	102
FINANCING STRUCTURE						
Capital/Asset Ratio	25.0%	31.9%	29.4%	21.7%	20.4%	31.2%
Commercial Funding Liability Ratio	24.5%	29.9%	60.4%	76.1%	76.7%	70.1%
Debt/Equity Ratio	3.0	2.2	2.4	3.0	3.9	2.1
Deposits to Loans	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Deposits to Total Assets	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Gross Loan Portfolio/Total Assets	84.3%	72.9%	69.2%	80.8%	82.6%	80.7%
OUTREACH INDICATORS						
Number of Active Borrowers	4,118	8,116	14,045	4,646	10,047	11,916
Percent of Women Borrowers	87.0%	90.0%	81.0%	62.6%	55.2%	60.0%
Number of Loans Outstanding	4,118	8,116	14,045	4,823	10,537	11,916
Gross Loan Portfolio	10,443,313	28,143,971	59,080,008	27,546,525	61,168,068	90,217,105
Average Loan Balance per Borrower	3,185	3,644	4,749	3,370	10,543	7,445
Average Loan Balance per Borrower/GNI per Capita	4.0%	4.6%	6.0%	12.9%	41.8%	43.3%
Average Outstanding Balance	3,185	3,644	4,491	3,370	10,219	7,134
Average Outstanding Balance/GNI per Capita	4.0%	4.6%	5.6%	12.9%	40.9%	39.9%
Number of Voluntary Savers	0	0	0	10,986	235	4,658
Number of Voluntary Savings Accounts	0	0	0	12,140	0	5,625
Voluntary Savings	0	0	0	0	0	0
Average Savings Balance per Saver	0	0	0	7,410	4,724	9,616
Average Savings Account Balance	0	0	0	4,192	4,557	8,425
MACROECONOMIC INDICATORS						
GNI per Capita	79,540	79,540	79,540	28,617	28,399	26,114
GDP Growth Rate	3.0%	3.0%	3.0%	3.9%	4.0%	4.1%
Deposit Rate	3.3%	3.3%	3.3%	4.1%	4.1%	4.5%
Inflation Rate	3.6%	3.6%	3.6%	3.0%	4.1%	4.3%
Financial Depth	28.6%	28.6%	28.6%	24.5%	30.3%	35.6%
OVERALL FINANCIAL PERFORMANCE						
Return on Assets	-3.9%	8.2%	3.4%	-0.9%	1.8%	2.2%
Return on Equity	9.6%	22.2%	16.9%	3.7%	9.0%	7.7%
Operational Self-Sufficiency	94.4%	126.4%	117.8%	104.7%	115.6%	118.7%
Financial Self-Sufficiency	91.6%	122.2%	110.9%	94.7%	109.6%	110.7%
REVENUES						
Financial Revenue Ratio	54.7%	45.9%	44.7%	23.4%	30.2%	28.3%
Profit Margin	-9.1%	18.2%	9.8%	-5.6%	8.8%	9.7%
Yield on Gross Portfolio (nominal)	69.9%	64.2%	60.7%	26.0%	32.0%	31.3%
Yield on Gross Portfolio (real)	63.9%	58.5%	55.1%	22.3%	25.5%	25.1%
EXPENSES						
Total Expense Ratio	62.0%	38.1%	45.8%	26.6%	24.7%	25.1%
Financial Expense Ratio	9.6%	6.1%	6.5%	4.4%	6.6%	6.6%
Loan Loss Provision Expense Ratio	2.2%	1.9%	1.7%	2.0%	1.9%	1.6%
Operating Expense Ratio	51.7%	31.3%	35.2%	16.7%	15.8%	15.4%
Personnel Expense Ratio	32.5%	12.8%	17.2%	8.8%	8.8%	8.1%
Administrative Expense Ratio	17.4%	11.9%	14.0%	8.4%	7.3%	6.8%
Adjustment Expense Ratio	1.2%	0.9%	1.1%	0.5%	0.9%	1.2%
EFFICIENCY						
Operating Expense/Loan Portfolio	66.9%	44.0%	48.6%	23.0%	19.9%	18.5%
Personnel Expense/Loan Portfolio	42.0%	18.3%	26.6%	12.1%	10.6%	9.9%
Average Salary/GNI per Capita	122.7%	119.5%	152.7%	326.0%	425.7%	439.2%
Cost per Borrower	2,220	1,106	2,236	1,201	1,819	1,485
Cost per Loan	2,220	1,086	2,236	1,201	1,796	1,396
PRODUCTIVITY						
Borrowers per Staff Member	120	165	115	172	102	121
Loans per Staff Member	120	165	115	172	107	129
Borrowers per Loan Officer	227	311	260	305	207	241
Loans per Loan Officer	227	311	260	335	218	260
Voluntary Savers per Staff Member	0	0	0	257	31	37
Savings Accounts per Staff Member	0	0	0	258	0	45
Personnel Allocation Ratio	50.0%	52.2%	47.9%	61.1%	56.9%	52.3%
RISK AND LIQUIDITY						
Portfolio at Risk > 30 days	0.4%	1.8%	5.1%	3.6%	3.0%	3.0%
Portfolio at Risk > 90 days	0.1%	1.0%	2.3%	2.1%	1.6%	1.4%
Write-off Ratio	0.3%	0.4%	3.6%	1.6%	1.6%	1.9%
Loan Loss Rate	0.3%	0.4%	3.4%	1.5%	1.2%	1.5%
Risk Coverage	253.0%	156.3%	80.3%	82.2%	116.1%	114.2%
Non earning Liquid Assets over Total Assets	8.8%	8.5%	5.1%	8.0%	6.7%	6.7%

Annex 2: Benchmarks (Reference Data 2006)

Benchmarks by Scale	Mexico			Rest of Latin America		
	Small	Medium	Large	Small	Medium	Large
INSTITUTIONAL CHARACTERISTICS						
Number of MFIs	16	8	6	69	59	70
Age	7	7	15	11	12	15
Total Assets	19,808,181	76,912,975	2,761,068,548	18,084,211	94,416,367	676,733,180
Offices	4	13	81	4	8	20
Personnel	38	105	2,163	27	93	295
FINANCING STRUCTURE						
Capital/Asset Ratio	41.1%	25.3%	25.8%	43.7%	33.5%	16.5%
Commercial Funding Liability Ratio	30.9%	16.9%	71.0%	50.6%	66.1%	92.9%
Debt/Equity Ratio	1.2	3.0	3.0	1.0	2.0	5.1
Deposits to Loans	0.0%	0.0%	30.0%	0.0%	0.0%	52.3%
Deposits to Total Assets	0.0%	0.0%	19.3%	0.0%	0.0%	42.8%
Gross Loan Portfolio/Total Assets	75.0%	71.6%	77.6%	80.4%	84.1%	80.1%
OUTREACH INDICATORS						
Number of Active Borrowers	5,019	10,817	394,762	3,157	10,691	41,744
Percent of Women Borrowers	88.5%	80.5%	79.0%	70.0%	62.6%	53.1%
Number of Loans Outstanding	5,019	10,817	394,762	3,157	10,909	50,022
Gross Loan Portfolio	16,159,541	56,403,912	2,542,263,614	14,287,288	72,035,060	524,328,211
Average Loan Balance per Borrower	3,210	5,967	6,773	4,372	7,279	15,449
Average Loan Balance per Borrower/GNI per Capita	4.1%	7.5%	8.6%	18.2%	41.9%	58.9%
Average Outstanding Balance	3,210	5,967	5,713	4,372	6,931	13,503
Average Outstanding Balance/GNI per Capita	4.1%	7.5%	7.2%	18.2%	41.5%	51.7%
Number of Voluntary Savers	0	0	343,107	0	0	27,931
Number of Voluntary Savings Accounts	0	0	348,014	0	0	29,644
Voluntary Savings	0	0	87,707,500	0	0	249,058,786
Average Savings Balance per Saver	0	0	5,295	3,355	4,783	11,673
Average Savings Account Balance	0	0	5,295	2,935	4,185	8,753
MACROECONOMIC INDICATORS						
GNI per Capita	79,540	79,540	79,540	26,658	26,114	26,658
GDP Growth Rate	3.0%	3.0%	3.0%	3.9%	4.0%	4.1%
Deposit Rate	3.3%	3.3%	3.3%	4.5%	4.5%	4.1%
Inflation Rate	3.6%	3.6%	3.6%	4.2%	4.3%	4.3%
Financial Depth	28.6%	28.6%	28.6%	33.1%	36.4%	33.1%
OVERALL FINANCIAL PERFORMANCE						
Return on Assets	3.7%	2.9%	7.2%	0.0%	3.4%	2.4%
Return on Equity	17.3%	8.5%	33.7%	1.4%	8.5%	15.4%
Operational Self-Sufficiency	107.5%	112.2%	130.1%	112.3%	119.0%	120.3%
Financial Self-Sufficiency	106.8%	109.8%	127.9%	100.1%	111.6%	114.0%
REVENUES						
Financial Revenue Ratio	42.4%	46.7%	55.0%	28.7%	30.6%	24.9%
Profit Margin	6.3%	9.0%	21.7%	0.1%	10.4%	12.3%
Yield on Gross Portfolio (nominal)	60.2%	64.4%	74.2%	33.3%	34.5%	28.0%
Yield on Gross Portfolio (real)	54.6%	58.7%	68.1%	27.5%	26.3%	21.0%
EXPENSES						
Total Expense Ratio	48.8%	40.1%	43.6%	28.1%	26.6%	21.1%
Financial Expense Ratio	6.5%	5.1%	8.4%	5.8%	6.7%	6.8%
Loan Loss Provision Expense Ratio	2.6%	1.6%	1.2%	1.2%	1.8%	1.9%
Operating Expense Ratio	37.6%	33.0%	33.3%	21.8%	17.4%	12.0%
Personnel Expense Ratio	17.9%	16.1%	16.5%	12.0%	9.8%	5.8%
Administrative Expense Ratio	17.2%	11.7%	14.0%	9.4%	7.8%	6.0%
Adjustment Expense Ratio	1.2%	0.9%	0.1%	2.3%	0.9%	0.4%
EFFICIENCY						
Operating Expense/Loan Portfolio	50.9%	44.0%	40.4%	27.5%	22.6%	15.3%
Personnel Expense/Loan Portfolio	28.6%	21.4%	21.7%	15.3%	11.8%	7.5%
Average Salary/GNI per Capita	118.3%	158.8%	181.7%	322.9%	432.9%	525.5%
Cost per Borrower	1,656	2,241	1,888	1,222	1,485	1,970
Cost per Loan	1,656	2,241	1,888	1,201	1,459	1,757
PRODUCTIVITY						
Borrowers per Staff Member	127	106	173	109	119	134
Loans per Staff Member	127	106	173	109	129	149
Borrowers per Loan Officer	264	269	253	251	227	241
Loans per Loan Officer	264	269	253	251	234	272
Voluntary Savers per Staff Member	0	0	338	0	0	107
Savings Accounts per Staff Member	0	0	346	0	0	105
Personnel Allocation Ratio	49.4%	48.4%	62.8%	50.0%	53.2%	59.1%
RISK AND LIQUIDITY						
Portfolio at Risk > 30 days	2.2%	3.5%	5.4%	4.5%	2.9%	2.3%
Portfolio at Risk > 90 days	1.5%	1.0%	2.2%	2.1%	1.3%	1.3%
Write-off Ratio	2.5%	0.1%	2.4%	1.7%	1.6%	2.2%
Loan Loss Rate	2.5%	0.1%	2.3%	1.0%	1.3%	1.9%
Risk Coverage	149.7%	108.2%	81.2%	90.2%	113.4%	139.6%
Non earning Liquid Assets over Total Assets	8.9%	4.2%	2.4%	7.5%	6.3%	7.5%

Annex 2: Benchmarks (Reference Data 2006)

Benchmarks by Average Loan Balance per Borrower	Mexico			Rest of Latin America		
	Low	Medium	High	Low	Medium	High
INSTITUTIONAL CHARACTERISTICS						
Number of MFIs	13	9	8	39	49	110
Age	6	10	10	10	15	14
Total Assets	27,852,726	46,469,194	81,473,802	19,272,475	66,427,966	252,894,841
Offices	4	11	11	6	7	11
Personnel	48	80	104	47	85	126
FINANCING STRUCTURE						
Capital/Asset Ratio	29.4%	40.9%	21.8%	57.0%	36.9%	18.7%
Commercial Funding Liability Ratio	48.2%	50.3%	49.1%	42.7%	61.9%	88.9%
Debt/Equity Ratio	1.8	1.4	3.6	0.7	1.6	4.4
Deposits to Loans	0.0%	0.0%	0.0%	0.0%	0.0%	23.7%
Deposits to Total Assets	0.0%	0.0%	0.0%	0.0%	0.0%	22.4%
Gross Loan Portfolio/Total Assets	74.0%	75.7%	71.6%	80.4%	84.0%	80.2%
OUTREACH INDICATORS						
Number of Active Borrowers	8,643	10,839	7,089	7,845	10,909	13,623
Percent of Women Borrowers	97.0%	78.0%	63.2%	90.0%	70.5%	51.3%
Number of Loans Outstanding	8,643	10,839	7,089	7,845	10,909	14,212
Gross Loan Portfolio	19,689,341	40,136,869	59,044,597	17,632,399	56,433,328	204,734,863
Average Loan Balance per Borrower	2,335	4,320	10,922	2,164	5,257	14,651
Average Loan Balance per Borrower/GNI per Capita	2.9%	5.4%	13.8%	10.7%	23.5%	60.9%
Average Outstanding Balance	2,335	4,320	10,765	2,157	4,933	13,091
Average Outstanding Balance/GNI per Capita	2.9%	5.4%	13.6%	10.3%	22.8%	56.7%
Number of Voluntary Savers	0	0	605,690	0	0	17,694
Number of Voluntary Savings Accounts	0	0	605,690	0	0	19,125
Voluntary Savings	0	0	0	0	0	13,457,322
Average Savings Balance per Saver	0	0	5,295	0	0	8,728
Average Savings Account Balance	0	0	5,295	0	0	7,973
MACROECONOMIC INDICATORS						
GNI per Capita	79,540	79,540	79,540	26,114	26,114	28,399
GDP Growth Rate	3.0%	3.0%	3.0%	4.0%	4.0%	4.1%
Deposit Rate	3.3%	3.3%	3.3%	4.5%	4.9%	4.1%
Inflation Rate	3.6%	3.6%	3.6%	4.3%	4.3%	4.0%
Financial Depth	28.6%	28.6%	28.6%	33.1%	35.6%	34.4%
OVERALL FINANCIAL PERFORMANCE						
Return on Assets	4.4%	7.8%	2.5%	-0.1%	4.2%	1.9%
Return on Equity	23.2%	16.9%	14.0%	0.1%	8.8%	8.2%
Operational Self-Sufficiency	112.9%	121.8%	115.8%	110.3%	118.9%	118.3%
Financial Self-Sufficiency	111.1%	117.7%	110.9%	99.7%	111.8%	110.9%
REVENUES						
Financial Revenue Ratio	56.4%	44.7%	27.0%	35.8%	34.6%	23.4%
Profit Margin	10.0%	15.1%	9.8%	-0.3%	10.6%	9.8%
Yield on Gross Portfolio (nominal)	71.5%	60.7%	30.6%	43.3%	37.7%	27.0%
Yield on Gross Portfolio (real)	65.5%	55.1%	26.0%	39.1%	30.4%	20.1%
EXPENSES						
Total Expense Ratio	50.6%	41.1%	26.8%	36.7%	31.4%	20.9%
Financial Expense Ratio	5.9%	7.8%	6.0%	5.1%	8.3%	6.2%
Loan Loss Provision Expense Ratio	2.4%	1.7%	1.3%	1.1%	2.6%	1.6%
Operating Expense Ratio	41.9%	32.6%	18.4%	28.7%	20.2%	12.0%
Personnel Expense Ratio	21.9%	16.9%	10.7%	15.5%	11.1%	6.1%
Administrative Expense Ratio	19.2%	12.2%	9.3%	12.8%	8.7%	5.6%
Adjustment Expense Ratio	0.9%	1.3%	0.8%	2.6%	1.5%	0.6%
EFFICIENCY						
Operating Expense/Loan Portfolio	56.2%	43.9%	23.2%	36.1%	26.6%	14.6%
Personnel Expense/Loan Portfolio	30.6%	26.6%	13.1%	21.3%	14.0%	7.6%
Average Salary/GNI per Capita	125.1%	135.8%	177.8%	349.2%	426.6%	463.8%
Cost per Borrower	1,585	2,064	2,658	818	1,267	2,046
Cost per Loan	1,585	2,064	2,658	802	1,267	1,852
PRODUCTIVITY						
Borrowers per Staff Member	153	97	103	160	133	106
Loans per Staff Member	153	97	103	160	135	114
Borrowers per Loan Officer	289	240	246	297	261	204
Loans per Loan Officer	289	240	246	302	266	226
Voluntary Savers per Staff Member	0	0	540	0	0	0
Savings Accounts per Staff Member	0	0	540	0	0	0
Personnel Allocation Ratio	52.1%	45.0%	46.2%	61.0%	53.8%	51.4%
RISK AND LIQUIDITY						
Portfolio at Risk > 30 days	0.8%	3.9%	5.5%	2.4%	3.6%	2.8%
Portfolio at Risk > 90 days	0.3%	2.2%	2.2%	1.3%	1.9%	1.4%
Write-off Ratio	1.1%	3.1%	1.3%	1.2%	1.7%	1.9%
Loan Loss Rate	1.1%	3.1%	1.2%	0.9%	1.5%	1.6%
Risk Coverage	204.0%	88.4%	54.5%	113.9%	96.4%	126.6%
Non earning Liquid Assets over Total Assets	10.6%	4.3%	2.6%	9.1%	4.8%	6.6%

Annex 2: Benchmarks (Reference Data 2006)

Benchmarks by Profit Status	Mexico		Rest of Latin America	
	Profit	Non-Profit	Profit	Non-Profit
INSTITUTIONAL CHARACTERISTICS				
Number of MFIs	14	16	50	148
Age	7	9	11	13
Total Assets	61,305,483	37,321,477	486,977,893	56,569,052
Offices	9	9	20	6
Personnel	84	60	294	55
FINANCING STRUCTURE				
Capital/Asset Ratio	25.3%	36.5%	14.2%	35.3%
Commercial Funding Liability Ratio	45.0%	49.3%	97.3%	63.0%
Debt/Equity Ratio	3.0	1.6	6.1	1.7
Deposits to Loans	0.0%	0.0%	32.5%	0.0%
Deposits to Total Assets	0.0%	0.0%	23.8%	0.0%
Gross Loan Portfolio/Total Assets	77.5%	71.4%	79.7%	81.3%
OUTREACH INDICATORS				
Number of Active Borrowers	7,089	10,971	36,632	7,523
Percent of Women Borrowers	87.0%	85.0%	51.5%	63.4%
Number of Loans Outstanding	7,089	10,971	40,047	7,523
Gross Loan Portfolio	47,539,130	28,143,971	349,972,772	46,155,192
Average Loan Balance per Borrower	4,535	3,550	12,872	6,793
Average Loan Balance per Borrower/GNI per Capita	5.7%	4.5%	51.9%	34.0%
Average Outstanding Balance	4,405	3,550	11,940	6,734
Average Outstanding Balance/GNI per Capita	5.5%	4.5%	45.3%	33.9%
Number of Voluntary Savers	0	0	22,842	0
Number of Voluntary Savings Accounts	0	0	21,425	0
Voluntary Savings	0	0	113,475,991	0
Average Savings Balance per Saver	0	0	12,591	0
Average Savings Account Balance	0	0	10,300	0
MACROECONOMIC INDICATORS				
GNI per Capita	79,540	79,540	26,658	26,658
GDP Growth Rate	3.0%	3.0%	4.1%	4.0%
Deposit Rate	3.3%	3.3%	4.5%	4.5%
Inflation Rate	3.6%	3.6%	4.2%	4.3%
Financial Depth	28.6%	28.6%	35.6%	33.1%
OVERALL FINANCIAL PERFORMANCE				
Return on Assets	3.9%	4.9%	1.9%	1.9%
Return on Equity	20.2%	19.4%	12.6%	5.8%
Operational Self-Sufficiency	110.8%	119.8%	114.4%	118.4%
Financial Self-Sufficiency	109.8%	117.8%	111.1%	109.9%
REVENUES				
Financial Revenue Ratio	54.2%	42.2%	29.8%	27.5%
Profit Margin	8.9%	15.1%	10.0%	9.0%
Yield on Gross Portfolio (nominal)	70.2%	57.0%	31.6%	31.0%
Yield on Gross Portfolio (real)	64.2%	51.5%	24.3%	25.0%
EXPENSES				
Total Expense Ratio	50.5%	41.2%	25.7%	25.0%
Financial Expense Ratio	8.0%	5.5%	7.5%	5.9%
Loan Loss Provision Expense Ratio	2.0%	1.9%	2.0%	1.6%
Operating Expense Ratio	37.7%	34.1%	14.9%	15.8%
Personnel Expense Ratio	17.4%	17.4%	7.9%	8.9%
Administrative Expense Ratio	16.7%	11.7%	7.0%	6.8%
Adjustment Expense Ratio	0.9%	1.0%	0.6%	1.3%
EFFICIENCY				
Operating Expense/Loan Portfolio	52.6%	45.8%	18.4%	19.4%
Personnel Expense/Loan Portfolio	26.6%	25.2%	9.7%	11.1%
Average Salary/GNI per Capita	158.9%	139.9%	535.4%	405.0%
Cost per Borrower	2,193	1,572	2,044	1,385
Cost per Loan	2,193	1,572	1,900	1,372
PRODUCTIVITY				
Borrowers per Staff Member	106	150	106	126
Loans per Staff Member	106	150	122	129
Borrowers per Loan Officer	233	272	206	249
Loans per Loan Officer	233	272	242	265
Voluntary Savers per Staff Member	0	0	68	0
Savings Accounts per Staff Member	0	0	74	0
Personnel Allocation Ratio	49.0%	51.1%	59.1%	51.9%
RISK AND LIQUIDITY				
Portfolio at Risk > 30 days	3.7%	2.2%	2.6%	3.1%
Portfolio at Risk > 90 days	1.4%	1.5%	1.2%	1.6%
Write-off Ratio	0.6%	2.4%	2.2%	1.7%
Loan Loss Rate	0.6%	2.3%	2.0%	1.3%
Risk Coverage	105.3%	121.5%	129.6%	110.0%
Non earning Liquid Assets over Total Assets	3.8%	8.5%	5.8%	7.2%

Annex 2: Benchmarks (Reference Data 2006)

Benchmarks by Financial Self-Sufficiency	Mexico		Rest of Latin America	
	FSS	Non-FSS	FSS	Non-FSS
INSTITUTIONAL CHARACTERISTICS				
Number of MFIs	20	10	144	54
Age	9	8	13	14
Total Assets	61,572,123	29,453,281	149,969,052	21,446,935
Offices	13	6	11	5
Personnel	88	40	106	35
FINANCING STRUCTURE				
Capital/Asset Ratio	32.3%	22.4%	23.9%	41.5%
Commercial Funding Liability Ratio	60.0%	27.9%	76.6%	57.6%
Debt/Equity Ratio	2.1	2.7	3.2	1.4
Deposits to Loans	0.0%	0.0%	0.0%	0.0%
Deposits to Total Assets	0.0%	0.0%	0.0%	0.0%
Gross Loan Portfolio/Total Assets	73.6%	71.2%	81.5%	77.2%
OUTREACH INDICATORS				
Number of Active Borrowers	12,359	4,735	14,341	4,709
Percent of Women Borrowers	90.9%	83.0%	55.7%	69.9%
Number of Loans Outstanding	12,359	4,735	14,719	4,713
Gross Loan Portfolio	44,485,860	23,807,143	113,475,091	17,754,637
Average Loan Balance per Borrower	3,955	4,380	9,903	5,357
Average Loan Balance per Borrower/GNI per Capita	5.0%	5.5%	46.3%	19.0%
Average Outstanding Balance	3,955	4,380	9,185	5,357
Average Outstanding Balance/GNI per Capita	5.0%	5.5%	43.2%	18.3%
Number of Voluntary Savers	0	0	0	0
Number of Voluntary Savings Accounts	0	0	0	0
Voluntary Savings	0	0	0	0
Average Savings Balance per Saver	0	0	0	0
Average Savings Account Balance	0	0	0	0
MACROECONOMIC INDICATORS				
GNI per Capita	79,540	79,540	27,529	26,114
GDP Growth Rate	3.0%	3.0%	4.1%	3.9%
Deposit Rate	3.3%	3.3%	4.1%	4.5%
Inflation Rate	3.6%	3.6%	4.2%	5.0%
Financial Depth	28.6%	28.6%	33.1%	34.4%
OVERALL FINANCIAL PERFORMANCE				
Return on Assets	6.8%	-4.4%	3.7%	-2.7%
Return on Equity	25.1%	-7.6%	12.1%	-8.4%
Operational Self-Sufficiency	123.3%	93.3%	122.3%	101.4%
Financial Self-Sufficiency	119.4%	89.4%	116.1%	89.5%
REVENUES				
Financial Revenue Ratio	54.2%	32.1%	29.0%	24.7%
Profit Margin	16.2%	-11.9%	13.9%	-11.8%
Yield on Gross Portfolio (nominal)	67.4%	44.6%	31.4%	31.5%
Yield on Gross Portfolio (real)	61.5%	39.5%	25.2%	22.7%
EXPENSES				
Total Expense Ratio	43.6%	50.6%	23.8%	30.3%
Financial Expense Ratio	6.7%	5.6%	6.4%	5.9%
Loan Loss Provision Expense Ratio	1.6%	2.9%	1.6%	2.5%
Operating Expense Ratio	35.8%	34.3%	14.2%	21.9%
Personnel Expense Ratio	17.5%	17.3%	7.7%	9.9%
Administrative Expense Ratio	14.0%	17.9%	6.3%	9.7%
Adjustment Expense Ratio	0.9%	1.5%	0.7%	3.5%
EFFICIENCY				
Operating Expense/Loan Portfolio	46.7%	50.7%	17.7%	29.6%
Personnel Expense/Loan Portfolio	25.2%	28.7%	9.0%	14.0%
Average Salary/GNI per Capita	158.8%	128.6%	445.1%	373.3%
Cost per Borrower	1,719	2,242	1,657	1,445
Cost per Loan	1,719	2,242	1,572	1,400
PRODUCTIVITY				
Borrowers per Staff Member	149	88	118	117
Loans per Staff Member	149	88	127	117
Borrowers per Loan Officer	284	193	236	243
Loans per Loan Officer	284	193	261	243
Voluntary Savers per Staff Member	0	0	0	0
Savings Accounts per Staff Member	0	0	0	0
Personnel Allocation Ratio	51.1%	43.8%	55.8%	50.0%
RISK AND LIQUIDITY				
Portfolio at Risk > 30 days	2.8%	3.8%	2.6%	4.8%
Portfolio at Risk > 90 days	1.4%	1.4%	1.2%	2.7%
Write-off Ratio	1.2%	3.7%	1.7%	2.1%
Loan Loss Rate	1.0%	3.7%	1.5%	1.5%
Risk Coverage	121.5%	93.1%	124.4%	91.9%
Non earning Liquid Assets over Total Assets	4.7%	13.0%	6.6%	8.0%

Annex 2: Benchmarks (Reference Data 2006)

Benchmarks by Methodology and Zones (only for Mexico)						
INSTITUTIONAL CHARACTERISTICS	Methodology			Zones		
	Village Banking	Solidarity	Individual	North	Center	South
Number of MFIs	7	13	8	4	12	11
Age	8	6	10	15	8	7
Total Assets	79,582,685	35,026,377	271,990,670	66,706,352	47,348,648	36,123,006
Offices	16	4	28	13	15	4
Personnel	149	36	355	95	122	32
FINANCING STRUCTURE						
Capital/Asset Ratio	29.4%	25.6%	21.8%	35.2%	25.8%	25.0%
Commercial Funding Liability Ratio	48.2%	11.6%	67.8%	54.8%	58.6%	0.0%
Debt/Equity Ratio	2.4	2.4	3.6	1.9	3.0	2.9
Deposits to Loans	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Deposits to Total Assets	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Gross Loan Portfolio/Total Assets	74.2%	70.7%	76.9%	70.4%	73.6%	72.1%
OUTREACH INDICATORS						
Number of Active Borrowers	15,613	6,589	20,967	6,205	14,131	6,613
Percent of Women Borrowers	94.7%	90.0%	62.8%	64.7%	85.0%	97.0%
Number of Loans Outstanding	15,613	6,589	25,432	6,205	14,131	6,613
Gross Loan Portfolio	62,446,363	26,929,582	178,595,335	45,387,903	36,855,528	26,929,582
Average Loan Balance per Borrower	2,830	3,234	8,019	7,065	3,538	3,234
Average Loan Balance per Borrower/GNI per Capita	3.6%	4.1%	10.1%	8.9%	4.5%	4.1%
Average Outstanding Balance	2,830	3,234	7,246	7,065	3,538	3,234
Average Outstanding Balance/GNI per Capita	3.6%	4.1%	9.1%	8.9%	4.5%	4.1%
Number of Voluntary Savers	0	0	0	0	0	0
Number of Voluntary Savings Accounts	0	0	0	0	0	0
Voluntary Savings	0	0	0	0	0	0
Average Savings Balance per Saver	0	0	0	0	0	0
Average Savings Account Balance	0	0	0	0	0	0
MACROECONOMIC INDICATORS						
GNI per Capita	79,540	79,540	79,540	79,540	79,540	79,540
GDP Growth Rate	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Deposit Rate	3.3%	3.3%	3.3%	3.3%	3.3%	3.3%
Inflation Rate	3.6%	3.6%	3.6%	3.6%	3.6%	3.6%
Financial Depth	28.6%	28.6%	28.6%	28.6%	28.6%	28.6%
OVERALL FINANCIAL PERFORMANCE						
Return on Assets	8.5%	3.4%	4.7%	-0.7%	3.8%	4.0%
Return on Equity	27.1%	9.3%	25.2%	1.2%	20.4%	21.1%
Operational Self-Sufficiency	117.8%	109.6%	122.4%	103.2%	115.4%	117.6%
Financial Self-Sufficiency	117.8%	108.7%	119.9%	99.0%	114.1%	110.9%
REVENUES						
Financial Revenue Ratio	56.4%	41.1%	47.1%	42.7%	45.7%	43.2%
Profit Margin	15.1%	8.0%	16.5%	-2.0%	12.3%	9.8%
Yield on Gross Portfolio (nominal)	78.0%	53.2%	57.5%	54.3%	62.2%	63.6%
Yield on Gross Portfolio (real)	71.7%	47.8%	51.9%	48.9%	56.5%	57.9%
EXPENSES						
Total Expense Ratio	47.9%	41.1%	45.7%	48.1%	43.5%	39.1%
Financial Expense Ratio	6.8%	5.9%	7.7%	7.6%	6.4%	5.0%
Loan Loss Provision Expense Ratio	1.7%	2.1%	3.1%	3.2%	1.3%	2.1%
Operating Expense Ratio	37.8%	33.4%	36.0%	35.0%	35.1%	32.6%
Personnel Expense Ratio	21.9%	16.1%	16.9%	17.4%	20.3%	14.4%
Administrative Expense Ratio	20.7%	16.5%	13.1%	17.9%	13.8%	16.9%
Adjustment Expense Ratio	0.8%	1.0%	0.4%	1.9%	1.2%	0.9%
EFFICIENCY						
Operating Expense/Loan Portfolio	56.2%	49.2%	46.1%	54.4%	52.4%	46.3%
Personnel Expense/Loan Portfolio	28.9%	19.4%	23.5%	26.6%	29.8%	18.6%
Average Salary/GNI per Capita	164.9%	121.3%	191.0%	173.8%	143.0%	121.3%
Cost per Borrower	1,619	1,585	2,261	3,556	1,665	1,728
Cost per Loan	1,619	1,585	2,261	3,556	1,665	1,728
PRODUCTIVITY						
Borrowers per Staff Member	147	115	107	78	140	166
Loans per Staff Member	147	115	107	78	140	166
Borrowers per Loan Officer	278	269	249	188	249	333
Loans per Loan Officer	278	269	249	188	249	333
Voluntary Savers per Staff Member	0	0	0	0	0	0
Savings Accounts per Staff Member	0	0	0	0	0	0
Personnel Allocation Ratio	56.8%	44.4%	49.0%	41.6%	54.9%	44.4%
RISK AND LIQUIDITY						
Portfolio at Risk > 30 days	1.1%	3.3%	7.3%	9.4%	2.7%	1.9%
Portfolio at Risk > 90 days	0.5%	0.6%	2.4%	6.3%	1.6%	0.6%
Write-off Ratio	1.1%	0.6%	2.4%	6.7%	2.4%	0.6%
Loan Loss Rate	0.8%	0.6%	2.3%	6.7%	2.3%	0.6%
Risk Coverage	213.0%	121.6%	63.9%	85.3%	114.1%	125.1%
Non earning Liquid Assets over Total Assets	8.0%	8.8%	3.4%	6.1%	6.9%	8.8%

Annex 2: Benchmarks (Reference Data 2006)

Benchmarks by Latin American Regions 2006	Latin American Regions				
	Mexico	Central America	South America	The Caribbean	LAC
INSTITUTIONAL CHARACTERISTICS					
Number of MFIs	30	68	121	9	228
Age	9	13	13	12	12
Total Assets	44,639,213	56,881,019	161,847,387	97,023,646	80,580,420
Offices	9	7	9	17	8
Personnel	71	72	108	188	90
FINANCING STRUCTURE					
Capital/Asset Ratio	29.0%	37.5%	21.5%	13.9%	25.9%
Commercial Funding Liability Ratio	49.3%	60.4%	81.2%	68.7%	68.7%
Debt/Equity Ratio	2.4	1.7	3.6	1.6	2.7
Deposits to Loans	0.0%	0.0%	0.0%	0.0%	0.0%
Deposits to Total Assets	0.0%	0.0%	0.0%	0.0%	0.0%
Gross Loan Portfolio/Total Assets	73.6%	80.4%	81.5%	69.7%	80.5%
OUTREACH INDICATORS					
Number of Active Borrowers	8,471	8,744	14,666	10,164	10,661
Percent of Women Borrowers	86.0%	69.8%	55.1%	69.0%	62.6%
Number of Loans Outstanding	8,471	8,744	14,666	10,164	10,818
Gross Loan Portfolio	35,916,333	45,048,295	133,391,985	76,709,559	61,937,366
Average Loan Balance per Borrower	4,049	6,372	10,742	3,848	7,375
Average Loan Balance per Borrower/GNI per Capita	5.1%	38.8%	41.9%	70.7%	32.8%
Average Outstanding Balance	4,049	6,288	9,998	3,848	6,981
Average Outstanding Balance/GNI per Capita	5.1%	37.0%	36.9%	70.7%	30.7%
Number of Voluntary Savers	0	0	0	0	0
Number of Voluntary Savings Accounts	0	0	0	0	0
Voluntary Savings	0	0	0	0	0
Average Savings Balance per Saver	0	0	0	0	0
Average Savings Account Balance	0	0	0	0	0
MACROECONOMIC INDICATORS					
GNI per Capita	79,540	26,114	28,399	4,896	28,399
GDP Growth Rate	3.0%	4.0%	4.1%	2.0%	4.0%
Deposit Rate	3.3%	4.9%	4.1%	6.2%	4.1%
Inflation Rate	3.6%	6.5%	3.0%	10.3%	4.0%
Financial Depth	28.6%	40.6%	29.2%	41.1%	31.1%
OVERALL FINANCIAL PERFORMANCE					
Return on Assets	4.2%	1.1%	2.3%	2.4%	2.1%
Return on Equity	20.2%	3.0%	9.2%	15.9%	8.4%
Operational Self-Sufficiency	115.3%	117.8%	117.7%	108.3%	117.1%
Financial Self-Sufficiency	111.0%	105.2%	111.8%	105.4%	110.7%
REVENUES					
Financial Revenue Ratio	46.7%	29.4%	26.3%	40.6%	29.0%
Profit Margin	9.9%	5.0%	10.5%	5.2%	9.7%
Yield on Gross Portfolio (nominal)	63.8%	32.7%	29.2%	61.2%	32.5%
Yield on Gross Portfolio (real)	58.1%	24.2%	24.3%	46.1%	26.4%
EXPENSES					
Total Expense Ratio	45.7%	27.2%	22.1%	46.0%	26.7%
Financial Expense Ratio	6.5%	8.2%	5.5%	12.7%	6.4%
Loan Loss Provision Expense Ratio	1.9%	1.5%	1.7%	2.4%	1.7%
Operating Expense Ratio	35.0%	17.9%	13.7%	30.2%	17.0%
Personnel Expense Ratio	17.4%	9.8%	7.6%	15.5%	9.1%
Administrative Expense Ratio	14.7%	8.3%	6.2%	12.7%	7.8%
Adjustment Expense Ratio	1.0%	2.6%	0.5%	0.6%	1.1%
EFFICIENCY					
Operating Expense/Loan Portfolio	47.8%	23.4%	17.4%	45.3%	20.9%
Personnel Expense/Loan Portfolio	26.0%	12.7%	9.0%	23.3%	11.2%
Average Salary/GNI per Capita	143.0%	438.9%	413.2%	912.5%	396.4%
Cost per Borrower	1,741	1,244	1,708	1,841	1,592
Cost per Loan	1,741	1,199	1,591	1,833	1,530
PRODUCTIVITY					
Borrowers per Staff Member	127	111	131	88	119
Loans per Staff Member	127	114	138	88	127
Borrowers per Loan Officer	263	224	255	187	241
Loans per Loan Officer	263	229	279	187	259
Voluntary Savers per Staff Member	0	0	0	0	0
Savings Accounts per Staff Member	0	0	0	0	0
Personnel Allocation Ratio	50.0%	54.2%	54.5%	47.1%	52.9%
RISK AND LIQUIDITY					
Portfolio at Risk > 30 days	3.3%	3.4%	2.5%	4.1%	3.0%
Portfolio at Risk > 90 days	1.4%	1.4%	1.4%	2.6%	1.5%
Write-off Ratio	1.4%	1.5%	2.0%	1.9%	1.8%
Loan Loss Rate	1.2%	1.0%	1.7%	1.9%	1.5%
Risk Coverage	114.1%	91.9%	137.3%	114.2%	113.2%
Non earning Liquid Assets over Total Assets	6.7%	6.6%	7.1%	13.0%	6.9%

Annex 2: Benchmarks (Reference Data 2006)

Statistics for Mexico 2006						
INSTITUTIONAL CHARACTERISTICS	Main Statistics					
	Minimum	1st Quartile	Median	3rd Quartile	Maximum	Average
Number of MFIs	30	30	30	30	30	30
Age	1	5	9	12	46	10
Total Assets	3,943,476	19,636,733	44,639,213	88,264,133	14,457,374,100	928,078,773
Offices	1	3	9	19	340	32
Personnel	15	28	71	151	5,145	524
FINANCING STRUCTURE						
Capital/Asset Ratio	-30.9%	20.1%	29.0%	43.9%	76.1%	31.8%
Commercial Funding Liability Ratio	0.0%	2.9%	49.3%	74.8%	128.1%	46.7%
Debt/Equity Ratio	(4.2)	1.1	2.4	3.7	31.4	3.5
Deposits to Loans	0.0%	0.0%	0.0%	0.0%	123.8%	9.4%
Deposits to Total Assets	0.0%	0.0%	0.0%	0.0%	85.7%	6.9%
Gross Loan Portfolio/Total Assets	40.4%	68.8%	73.6%	83.6%	93.8%	74.9%
OUTREACH INDICATORS						
Number of Active Borrowers	508	4,251	8,471	15,339	636,591	79,441
Percent of Women Borrowers	40.0%	72.3%	86.0%	98.0%	100.0%	83.4%
Number of Loans Outstanding	508	4,251	8,471	15,339	652,025	80,922
Gross Loan Portfolio	1,591,315	15,197,709	35,916,333	63,882,625	10,003,058,057	717,489,505
Average Loan Balance per Borrower	1,767	2,761	4,049	7,310	17,766	5,610
Average Loan Balance per Borrower/GNI per Capita	2.2%	3.5%	5.1%	9.2%	22.3%	7.1%
Average Outstanding Balance	1,767	2,761	4,049	6,845	17,766	5,539
Average Outstanding Balance/GNI per Capita	2.2%	3.5%	5.1%	8.6%	22.3%	7.0%
Number of Voluntary Savers	0	0	0	0	2,339,341	100,852
Number of Voluntary Savings Accounts	0	0	0	0	2,339,341	101,179
Voluntary Savings	0	0	0	0	12,386,715,198	586,349,254
Average Savings Balance per Saver	0	0	0	0	763	48
Average Savings Account Balance	0	0	0	0	763	48
MACROECONOMIC INDICATORS						
GNI per Capita	79,540	79,540	79,540	79,540	79,540	79,540
GDP Growth Rate	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Deposit Rate	3.3%	3.3%	3.3%	3.3%	3.3%	3.3%
Inflation Rate	3.6%	3.6%	3.6%	3.6%	3.6%	3.6%
Financial Depth	28.6%	28.6%	28.6%	28.6%	28.6%	28.6%
OVERALL FINANCIAL PERFORMANCE						
Return on Assets	-59.3%	-1.9%	4.2%	8.5%	31.0%	1.0%
Return on Equity	-6950.4%	-4.8%	20.2%	27.3%	727.0%	-193.6%
Operational Self-Sufficiency	33.9%	96.8%	115.3%	126.7%	181.2%	112.3%
Financial Self-Sufficiency	33.3%	94.5%	111.0%	123.3%	181.2%	109.0%
REVENUES						
Financial Revenue Ratio	11.1%	31.4%	46.7%	56.7%	83.2%	47.4%
Profit Margin	-200.1%	-5.9%	9.9%	18.9%	44.8%	-4.3%
Yield on Gross Portfolio (nominal)	17.2%	44.6%	63.8%	81.1%	106.2%	61.3%
Yield on Gross Portfolio (real)	13.1%	39.5%	58.1%	74.7%	98.9%	55.7%
EXPENSES						
Total Expense Ratio	13.0%	34.6%	45.7%	54.4%	100.9%	45.4%
Financial Expense Ratio	2.5%	4.8%	6.5%	8.6%	12.1%	6.7%
Loan Loss Provision Expense Ratio	0.2%	1.2%	1.9%	3.1%	14.4%	2.9%
Operating Expense Ratio	7.8%	26.8%	35.0%	41.6%	92.7%	35.8%
Personnel Expense Ratio	2.2%	12.5%	17.4%	23.5%	62.8%	19.6%
Administrative Expense Ratio	2.9%	10.9%	14.7%	20.4%	40.7%	16.2%
Adjustment Expense Ratio	0.0%	0.3%	1.0%	1.4%	16.0%	1.5%
EFFICIENCY						
Operating Expense/Loan Portfolio	11.1%	34.1%	47.8%	57.2%	135.4%	50.5%
Personnel Expense/Loan Portfolio	2.7%	16.6%	26.0%	34.9%	91.7%	27.2%
Average Salary/GNI per Capita	52.7%	108.7%	143.0%	182.9%	257.8%	147.1%
Cost per Borrower	604	1,470	1,741	2,422	5,068	2,089
Cost per Loan	604	1,445	1,741	2,422	5,068	2,065
PRODUCTIVITY						
Borrowers per Staff Member	24	86	127	186	366	140
Loans per Staff Member	24	86	127	186	366	141
Borrowers per Loan Officer	73	167	263	328	824	278
Loans per Loan Officer	73	167	263	332	824	280
Voluntary Savers per Staff Member	0	0	0	0	710	46
Savings Accounts per Staff Member	0	0	0	0	710	47
Personnel Allocation Ratio	33.3%	43.4%	50.0%	56.4%	86.1%	50.8%
RISK AND LIQUIDITY						
Portfolio at Risk > 30 days	0.2%	0.9%	3.3%	6.9%	24.1%	5.1%
Portfolio at Risk > 90 days	0.0%	0.3%	1.4%	2.5%	17.0%	2.6%
Write-off Ratio	0.0%	0.0%	1.4%	3.5%	23.9%	3.1%
Loan Loss Rate	-2.0%	0.0%	1.2%	3.3%	23.9%	3.0%
Risk Coverage	23.2%	63.0%	114.1%	200.2%	1275.7%	181.0%
Non earning Liquid Assets over Total Assets	0.8%	3.3%	6.7%	15.5%	23.0%	8.9%

Annex 3: Indicator Definitions

INSTITUTIONAL CHARACTERISTICS	
Number of MFIs	Sample size of group
Age	Years functioning as an MFI
Total Assets	Total Assets, adjusted for Inflation and standardized loan portfolio provisioning and write-offs
Offices	Number, including head office
Personnel	Total number of employees
FINANCING STRUCTURE	
Capital/Asset Ratio	Adjusted Total Equity/Adjusted Total Assets
Commercial Funding Liabilities Ratio	All liabilities with "market" price/Adjusted Gross Loan Portfolio
Debt/ Equity Ratio	Adjusted Total Liabilities/Adjusted Total Equity
Deposits to Loans	Voluntary Savings/Adjusted Gross Loan Portfolio
Deposits to Total Assets	Voluntary Savings/Adjusted Total Assets
Gross Loan Portfolio/ Total Assets	Adjusted Gross Loan Portfolio/Adjusted Total Assets
OUTREACH INDICATORS	
Number of Active Borrowers	Number of borrowers with loans outstanding, adjusted for standardized write-offs
Percent of Women Borrowers	Number of active women borrowers/Adjusted Number of Active Borrowers
Number of Loans Outstanding	Number of loans outstanding, adjusted for standardized write-offs
Gross Loan Portfolio	Gross Loan Portfolio, adjusted for standardized write-offs
Average Loan Balance per Borrower	Adjusted Gross Loan Portfolio/Adjusted Number of Active Borrowers
Average Loan Balance per Borrower/GNI per Capita	Adjusted Average Loan Balance per Borrower/GNI per Capita
Average Outstanding Balance	Adjusted Gross Loan Portfolio/Adjusted Number of Loans Outstanding
Average Outstanding Balance/GNI per Capita	Adjusted Average Outstanding Balance/GNI per Capita
Number of Voluntary Savers	Number of savers with voluntary savings demand deposit and time deposit accounts
Number of Voluntary Savings Accounts	Number of voluntary savings demand deposit and time deposit accounts
Voluntary Savings	Total value of voluntary savings demand deposit and time deposit accounts
Average Savings Balance per Saver	Voluntary Savings/Number of Voluntary Savers
Average Savings Account Balance	Voluntary Savings/Number of Voluntary Savings Accounts
MACROECONOMIC INDICATORS	
GNI per Capita	US Dollars
GDP Growth Rate	Annual Average
Deposit Rate	%
Inflation Rate	%
Financial Depth	M3/ GDP
OVERALL FINANCIAL PERFORMANCE	
Return on Assets	Adjusted Net Operating Income, net of taxes/Adjusted Average Total Assets
Return on Equity	Adjusted Net Operating Income, net of taxes/Adjusted Average Total Equity
Operational Self-Sufficiency	Financial Revenue/(Financial Expense + Net Loan Loss Provision Expense + Operating Expense)
Financial Self-Sufficiency	Adjusted Financial Revenue/Adjusted (Financial Expense + Net Loan Loss Provision Expense + Operating Expense)
REVENUES	
Financial Revenue Ratio	Adjusted Financial Revenue/Adjusted Average Total Assets
Profit Margin	Adjusted Net Operating Income/Adjusted Financial Revenue
Yield on Gross Portfolio (nominal)	Adjusted Financial Revenue from Loan Portfolio/ Adjusted Average Gross Loan Portfolio
Yield on Gross Portfolio (real)	(Adjusted Yield on Gross Portfolio (nominal) - Inflation Rate)/(1 + Inflation Rate)
EXPENSES	
Total Expense Ratio	Adjusted (Financial Expense + Net Loan Loss Provision Expense + Operating Expense)/Adjusted Average Total Assets
Financial Expense Ratio	Adjusted Financial Expense/Adjusted Average Total Assets
Loan Loss Provision Expense Ratio	Adjusted Net Loan Loss Provision Expense/Adjusted Average Total Assets
Operating Expense Ratio	Adjusted Operating Expense/Adjusted Average Total Assets
Personnel Expense Ratio	Adjusted Personnel Expense/Adjusted Average Total Assets
Administrative Expense Ratio	Adjusted Administrative Expense/Adjusted Average Total Assets
Adjustment Expense Ratio	(Adjusted Net Operating Income - Unadjusted Net Operating Income)/Adjusted Average Total Assets
EFFICIENCY	
Operating Expense/Loan Portfolio	Adjusted Operating Expense/Adjusted Average Gross Loan Portfolio
Personnel Expense/Loan Portfolio	Adjusted Personnel Expense/Adjusted Average Gross Loan Portfolio
Average Salary/GNI per Capita	Adjusted Average Personnel Expense/GNI per capita
Cost per Borrower	Adjusted Operating Expense/Adjusted Average Number of Active Borrowers
Cost per Loan	Adjusted Operating Expense/Adjusted Average Number of Loans
PRODUCTIVITY	
Borrowers per Staff Member	Adjusted Number of Active Borrowers/Number of Personnel
Loans per Staff Member	Adjusted Number of Loans Outstanding/Number of Personnel
Borrowers per Loan Officer	Adjusted Number of Active Borrowers/Number of Loan Officers
Loans per Loan Officer	Adjusted Number of Loans Outstanding/Number of Loan Officers
Voluntary Savers per Staff Member	Number of Voluntary Savers/Number of Personnel
Savings Accounts per Staff Member	Number of Saving Accounts/Number of Personnel
Personnel Allocation Ratio	Number of Loan Officers/Number of Personnel
RISK AND LIQUIDITY	
Portfolio at Risk > 30 Days	Outstanding balance, loans overdue > 30 Days/Adjusted Gross Loan Portfolio
Portfolio at Risk > 90 Days	Outstanding balance, loans overdue > 90 Days/Adjusted Gross Loan Portfolio
Write-off Ratio	Value of loans written-off/Adjusted Average Gross Loan Portfolio
Loan Loss Rate	Adjusted Write-offs, net of recoveries/Adjusted Average Gross Loan Portfolio
Risk Coverage	Adjusted Loan Loss Reserve/PAR > 30 Days
Non-earning Liquid Assets as % Total Assets	Adjusted Cash and banks/Adjusted Total Assets

Annex 4: Interpreting the Indicators

Financial Management

MFI's finance their activities with a variety of funding sources. Measures of financial management describe these sources of capital, whether debt or equity, and compare them to the resources purchased with that funding. They also indicate how much an institution has leveraged its capital.

Scale and Outreach

As MFI's increase in scale and outreach, they reach more clients with more products. Indicators of scale measure the size of services to microfinance clients, whether loans or deposits. Outreach indicators report on the number and types of clients reached. Industry analysts are still working on the indicators that accurately reflect the poverty levels of clients reached by MFI financial services.

Sustainability and Profitability

Profitable and sustainable institutions earn positive returns on their operations. In microfinance, this means that an institution earns a positive net income without depending on donor support. To account for institutional scale, these returns are compared to the institution's assets and equity. Sustainability measures the extent to which these returns cover total expenses.

Revenue

MFI's earn most revenues from their loan portfolio. As MFI's diversify services, fees from transfers, payments and insurance services will provide new revenue streams. Revenue metrics look at financial revenue on the loan portfolio, as well as on the total asset base, to assess the impact of revenue structure on profitability and sustainability.

Expense

An MFI's financial activities generate a variety of expense, from funding its asset base and general operating expenses, to provisioning for potential loss from default. Expense indicators measure the relative importance of different expense categories in order to determine their impact on profitability and sustainability.

Efficiency

Efficient institutions generate minimal costs in delivering services. It should strive to reduce such costs through scale or use of effective technologies. Efficiency indicators measure the level of expenses incurred to deliver financial services, such as loans.

Productivity

Productive institutions maximize services with minimal resources. Productivity indicators present measures of how effectively human resources are leveraged to serve MFI clients. Such indicators are dependent on an institution's technology and type and variety of services offered.

Risk and Liquidity

MFI's, like all financial institutions, face a number of risks in their business. First among these risks includes credit risk, the chance that a borrower will not repay a loan. As the portfolio is the MFI's most important asset, such risk directly impacts its revenues and generates additional costs due to loss. Portfolio quality will determine the institution's ability to increase its outreach and continue to serve existing clients. MFI's with substantive short term borrowing or deposits from the public also face liquidity risk if serious mismatch exists between short term assets and liabilities, creating the inability to meet current obligations with current resources.

Annex 5: Notes for Adjustments and Peer Groups

MIX analysis is based on comparison among peer groups of like institutions, classified using criteria such as program size, poverty level of the target group, region and level of financial intermediation. The financial results we generate are adjusted to ensure comparability, taking into account the effect of inflation, of subsidy levels, and of differences in loan loss provisioning. This report gives you both an accurate picture of your financial results and a comparison to those of your peers.

Peer Group Criteria and Information Quality

The information included in the peer group averages is not independently verified. It is self-reported data voluntarily submitted by institutions like yours. We have represented our comfort level with the data provided for each peer group with a Data Quality grading.

The Bulletin classifies information from participating institutions according to the degree to which we have independent verification of its reliability. Information with *** has been independently generated through a detailed financial analysis by an independent third party, such as a CAMEL evaluation, a CGAP appraisal, or assessments by reputed rating agencies. Information with ** is backed by accompanying documentation, such as audited financial statements, annual reports, and independent program evaluations that provide a reasonable degree of confidence for our adjustments. Information with * is from MFIs that have limited themselves to completing our questionnaire. These ratings signify confidence levels on the reliability of the information; they are not intended as a rating of the financial performance of the MFIs.

Neither the Editorial Staff, nor the Advisory and Review Panel, nor MIX can be held responsible for the validity of the information presented here.

A brief description of the peer groups, their members and the number of MFIs in each peer group classified by the information

quality rating assigned to each is provided page 12. Full details are available in The MicroBanking Bulletin.

Adjustments

We have adjusted the cost of funds on income statements for all MFIs to take into account the effect of inflation on an institution's equity over time. This adjustment takes the form of a net expense account on the income statement, reducing reported net income. It is offset by an equity account, which shows the distribution between real net income and the effect of inflation on equity. The financial results of all MFIs include this adjustment, except those that use a generally accepted method of inflation-based accounting.

Income reporting has also been adjusted for most MFIs to show real profits without the presence of subsidies. Adjustment for subsidies to the cost of funds is the most common adjustment made to results of MFIs participating in this round. We add an additional cost for any liabilities bearing interest rates which are substantially lower than the "market" price, to be able to compare institutions with widely varying levels of subsidy as though they were unsubsidized. Determining the "market" price is a difficult issue. However, for purposes of comparison, the most important issue is that whatever rule we choose must be applied consistently across institutions. We have chosen to use the deposit rate as reported by the MFI as the shadow price for market interest rates. Donations are also separated, and profits are calculated on the basis of only operational income and expenses. Finally, we take into account in-kind subsidies by including any costs such as a director's salary, free rent, or other operational expenses paid by another party off the books.

Lastly, we standardize loan loss provisioning and write off policies. We provision for 50% of the outstanding balance of loans that are past-due more than 90 days but less than 180 days or are rescheduled, and 100% of the balance of overdue loans over 180 days. Any loans outstanding more than 365 days are fully written off.

Annex 6: Financial Term Definitions

BALANCE SHEET	
Cash and Due from Banks	Cash, petty cash, balances in banks, including non-interest bearing deposits
Reserves from Central Bank	Cash reserves in a central bank
Short Term Financial Assets	Treasury bills and other short term investments, including interest-bearing deposits, convertible to cash within 12 months. Usually used in liquidity management.
Net Loan Portfolio	Gross Loan Portfolio minus Loan Loss Reserve
Gross Loan Portfolio	All outstanding principal for all outstanding client loans, including current, delinquent and restructured loans, but not loans that have been written off. It does not include interest receivable. It does not include employee loans.
(Loan Loss Reserve)	The portion of the gross loan portfolio that has been expensed (provisioned for) in anticipation of losses due to default. This item represents the cumulative value of the loan loss provision expense, less the cumulative value of loans written off.
Interest Receivable	Interest receivable on all asset accounts. Recorded by institutions using accrual accounting.
Accounts Receivable and Other Assets	Accounts receivable, notes receivables and other receivables. This includes all receivables other than client loan accounts, including employee loans.
Long Term Financial Assets	Long term investments not convertible to cash within 12 months
Net Fixed Assets	The purchase value of property, plant and equipment, less accumulated depreciation. This includes intangibles, such as MIS development or goodwill, less accumulated amortization.
TOTAL ASSETS	Total of all net asset accounts
Demand Deposits	Total of Voluntary and Compulsory Savings
Voluntary Savings	Demand deposits from the general public and members that are not maintained as a condition for accessing a current or future loan and are held with the institution
Compulsory Savings	Client savings accounts that are maintained as a condition for a current or future loan and are held with the institution
Time Deposits	Certificates of deposit or other fixed term deposits
Borrowings	Total of Commercial and Concessional Borrowings
Borrowings at concessional interest rates	Principal balance of all borrowings, including overdraft accounts, for which the institution pays a nominal rate of interest that is less than the local commercial interest rate
Borrowings at commercial interest rates	Principal balance of all borrowings, including overdraft accounts, for which the institution pays a nominal rate of interest that is greater than to or equal to the local commercial interest rate
Interest Payable	Interest payable on all liability accounts. Recorded by institutions using accrual accounting.
Accounts Payable and Other Liabilities	Other liabilities including tax and salary liabilities, social withholdings, deferred income, other accounts payable, including liabilities that do not fund the portfolio, such as mortgages on real estate.
TOTAL LIABILITIES	Total of all liability accounts
Paid-in Capital	Capital paid by shareholders or members
Donated Equity	Accumulated donations
Prior Years	Accumulated donations from prior periods
Current Year	Donations from the current year
Retained Earnings	Accumulated net income after taxes and before donations
Prior Years	Accumulated net income after taxes and before donations from prior periods
Current Year	Net income after taxes and before donations from the current year
Adjustments	Value of all adjustments, including inflation adjustment
Inflation Adjustment	Value of inflation adjustment expense
Subsidized Costs of Funds Adjustment	Value of subsidized cost of funds adjustment expense
In-Kind Subsidy Adjustment	Value of in-kind subsidy adjustment
Reserves	Reserves such as those imposed by law or statute.
Other Equity Accounts	Other equity accounts not included elsewhere
TOTAL EQUITY	Total of all equity accounts
TOTAL LIABILITIES AND EQUITY	Total of Total Liabilities and Total Equity

Annex 6: Financial Term Definitions

INCOME STATEMENT	
Financial Revenue	Total of revenue from loan portfolio and other financial assets, as well as other financial revenue from financial services
Financial Revenue from Loan Portfolio	Total interest, fees and commission on loan portfolio
Interest on Loan Portfolio	Interest earned on loan portfolio
Fees and Commissions on Loan Portfolio	Penalties, commissions and other fees charged on loan portfolio
Financial Revenue from Other Financial Assets	Net gains on other financial assets
Other Revenue Related to Financial Services	Other revenue from provision of financial services, including revenue from insurance or transfer services or non-financial revenue from the provision of financial services, such as the sale of passbooks or SmartCards. This account also include net exchange gains.
Financial Expense	Total of financial expense on liabilities, net inflation adjustment, cost-of-funds adjustment and other expenses from financial services
Financial Expense on Liabilities	Total of interest and fees paid on deposits and borrowings
Interest and Fee Expense on Deposits	Interest and fees paid on demand or term deposits
Interest and Fee Expense on Borrowings	Interest and fees paid on borrowings
Net Inflation Adjustment Expense	Reserved for institutions that use inflation based accounting. Net amount of inflation adjustment.
Inflation Adjustment Expense	Cost of maintaining the value of the institution's equity
Inflation Adjustment Revenue	Gain on the value of fixed assets due to inflation
Subsidized Cost-of-Funds Adjustment Expense	Adjustment expense for difference between market rate and concessional rate on borrowings
Other Financial Expenses	Other expenses from provision of financial services, including non-financial expenses on financial products, as well as net exchange depreciation
NET FINANCIAL INCOME	Financial Revenue minus Financial Expense
Net Loan Loss Provision Expense	Sum of loan loss provision expense and recovery on loans written off
Loan Loss Provision Expense	Loan Loss Provision Expense for the period
Recovery on Loans Written-Off	Total recovery on loans written off
Operating Expense	Total of Personnel Expense and Administrative Expense
Personnel Expense	Salaries, withholdings, fringe benefits and personnel taxes paid on all those who work for the institution
Administrative Expense	Total of Rent and Utilities, Transportation, Office Supplies, Depreciation and Other Administrative Expenses
Rent and Utilities	Rent and utility charges
Transportation	Transportation of staff to attend to clients and to manage operations
Office Supplies	Printed matter, supplies, photocopies, books, etc.
Depreciation and Amortization	Allowance for deterioration, eventual replacement of equipment
Other Administrative Expenses	Other non-personnel administrative expenses
NET OPERATING INCOME	Financial Revenue less Financial Expense, Net Loan Loss Provision Expense and Operating Expense
Net Non-Operating Income	Non-operating Revenue less Non-operating Expense
Non-Operating Revenue	Revenue from activity unrelated to the MFI's core activity of providing financial services. This could include consulting income, sale of IT products, or fees for business development services (BDS).
Non-Operating Expense	Expenses from activity unrelated to the MFIs core activity of providing financial services, such as BDS development costs or consulting expenses
NET INCOME (BEFORE TAXES AND DONATIONS)	Net Operating Income less Net Non-operating Income
Taxes	Includes all taxes paid on Net Income or other measure of profits as defined by local tax authorities.
NET INCOME (AFTER TAXES AND BEFORE DONATIONS)	Net Income (before Taxes and Donations) less Taxes
Donations to Subsidize Financial Services	Donations made to the MFI to subsidize its operations
NET INCOME (AFTER TAXES AND DONATIONS)	Net Income (after Taxes and before Donations) plus Donations.

Annex 7: Participating Mexican Institutions

ACRONYM	NAME	DATA QUALITY [†]	YEAR
ADMIC	Asesoría Dinámica de Microempresas, A.C.	*	2006
ALSOL	Alternativa Solidaria Chiapas, A.C.	*	2006
AMEXTRA	Programa de Microfinanzas AMEXTRA, A.C.	*	2006
APROS	Ámbito Productivo, S.C.	*	2006
ASEA	Asesoría Integral de Empresas Agropecuarias S.A. de C.V.	*	2006
ASP Financiera	ASP, Consultores & Representación, S.A. de C.V.	**	2006
ATEMEXPA	Asesoría Técnica Especializada de México en Palma de Aceite, S.C.	*	2006
AUGE	Desarrollo Autogestionario, A.C.	*	2006
CAFASA	Consultores Agropecuarios y Forestales Asociados, S.A. de C.V.	*	2006
Caja Libertad	Caja Libertad, S.C.L.	**	2006
Caja Popular Mexicana	Caja Popular Mexicana, S.A.P.	**	2006
CAME	Programa CAME, I.A.P.	*	2006
COCDEP	Consultoría y Capacitación para el Desarrollo Productivo, S.C.	*	2006
Compartamos	Banco Compartamos, S.A.	***	2006
Conserva	Conserva, A.C.	*	2006
Crece Safsa	Crece Safsa, S.A. de C.V.	*	2006
Despacho Amador	Despacho Alfonso Amador, S.A.	*	2006
DESPENO	Depósito y Servicios Pecuarios del Noroeste, S.A. de C.V.	*	2006
Espacios Alternativos	Espacios Alternativos, S.C.	*	2006
EurekaSoli	EurekaSoli, S.A. de C.V.	*	2006
Financiera Independencia	Financiera Independencia S.A. de C.V.	***	2006
FINCA - MEX	Fundación Integral Comunitaria, A.C.	**	2006
FinComún	FinComún, Servicios Financieros Comunitarios, S.A. de C.V.	***	2006
Forjadores	Forjadores de Negocios, S.A. de C.V.	*	2006
FRAC	Fundación Realidad, A.C.	**	2006
FUNHAVI	Fundación de Habitat y Vivienda, A.C.	*	2006
Oportunidad Microfinanzas	Oportunidad Microfinanzas, S.A. de C.V.	*	2006
Pro Mujer - MEX	Asociación ProMujer de México, A.C.	*	2006
SemiSol	Semilla Solidaria, S.A. de C.V.	*	2006
Solfi	Soluciones Financieras, S.A. de C.V.	*	2006

† The MicroBanking Bulletin uses the following grading system to classify information received from MFIs:

*** The information is supported by an in-depth financial analysis conducted by an independent entity in the last three years

** The MBB questionnaire plus audited financial statements, annual reports and other independent evaluations

* The MBB questionnaire or audited financial statements without additional documentation



Benchmarking Mexican Microfinance: Performance and Transparency in a Growing Industry

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